Stafford
BOROUGH COUNCIL

Civic Centre, Riverside, Stafford

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Please note start time

Dear Members

Audit and Accounts Committee

A **virtual** meeting of the Audit and Accounts Committee will be held using Zoom **on Tuesday 18 January 2022 at 5.30pm** to deal with the business as set out on the agenda.

To watch the meeting, please follow the instructions below:-

1 Log on to Zoom at **https://zoom.us/join**

2 Enter Meeting ID **849 8874 9231** when prompted

3 Enter Password **290514** when prompted

Or, to listen to the meeting, please call the following telephone number:-
0131 460 1196

Please note that this meeting will be recorded.

Members are reminded that contact officers are shown in each report and members are welcome to raise questions etc in advance of the meeting with the appropriate officer.

I. Curran

Head of Law and Administration

AUDIT AND ACCOUNTS COMMITTEE -
18 JANUARY 2022

Chair - Councillor A M Loughran

A G E N D A

1 Minutes of 10 November 2021 as circulated and published on 6 January 2022

2 Apologies

3 Officers' Reports

Membership

Chair - Councillor A M Loughran

M G Dodson	P W Jones
I D Fordham	A M Loughran
R A James	J A Nixon

Cabinet Member - Councillor R M Smith

ITEM NO 3(a)

ITEM NO 3(a)

Report of:	**Interim Head of Finance**
Contact Officer:	**Emma Fullagar**
Telephone No:	**01785 619241**
Ward Interest:	**Nil**
Report Track:	**Audit and Accounts 18/01/2022** **Council 01/02/2022**

AUDIT AND ACCOUNTS COMMITTEE

18 JANUARY 2022

Annual Treasury Management Report 2020/21

1 Purpose of Report

1.1 To update members on treasury management activity and performance during the 2020/21 financial year.

2 Recommendation

2.1 To note the annual treasury management report for 2020/21;

2.2 To approve the actual 2020/21 prudential and treasury indicators set out in the **APPENDIX**.

3 Key Issues and Reasons for Recommendation

3.1 Treasury management activity and performance during the 2020/21 financial year.

4 Relationship to Corporate Business Objectives

4.1 Treasury management and investment activity link in with all of the Council’s priorities and their spending plans.

5 Report Detail

Background

5.1 This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2020/21. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

5.2 During 2020/21 the minimum reporting requirements were that the full Council should receive the following reports:

- an annual treasury strategy in advance of the year
- a mid-year (minimum) treasury update report
- an annual review following the end of the year describing the activity compared to the strategy (this report)

5.3 The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

5.4 This Council confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Audit and Accounts Committee before they were reported to the full Council. Training has been undertaken by members of the Audit and Accounts Committee and further training will be arranged as required.

The Council's Capital Expenditure and Financing

5.5 The Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

5.6 The actual capital expenditure forms one of the required prudential indicators. This is detailed in the appendix.

The Council's Overall Borrowing Need

5.7 The Council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR).

5.8 **Gross borrowing and the CFR** - in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2020/21) plus the estimates of any additional capital financing requirement for the current (2021/22) and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. This indicator allowed the Council some flexibility to borrow in advance of its immediate capital needs in 2020/21. The table in the appendix highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

5.9 **The authorised limit** - the authorised limit is the "affordable borrowing limit" required by s3 of the Local Government Act 2003. Once this has been set, the Council does not have the power to borrow above this level. The table in the appendix demonstrates that during 2020/21 the Council has maintained gross borrowing within its authorised limit.

5.10 **The operational boundary** – the operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary are acceptable subject to the authorised limit not being breached.

5.11 **Actual financing costs as a proportion of net revenue stream** - this indicator identifies the trend in the cost of capital, (borrowing and other long term obligation costs net of investment income), against the net revenue stream.

Treasury Position as at 31 March 2021

5.12 At the beginning and the end of 2020/21 the Council's treasury, (excluding borrowing by PFI and finance leases), position was as follows:

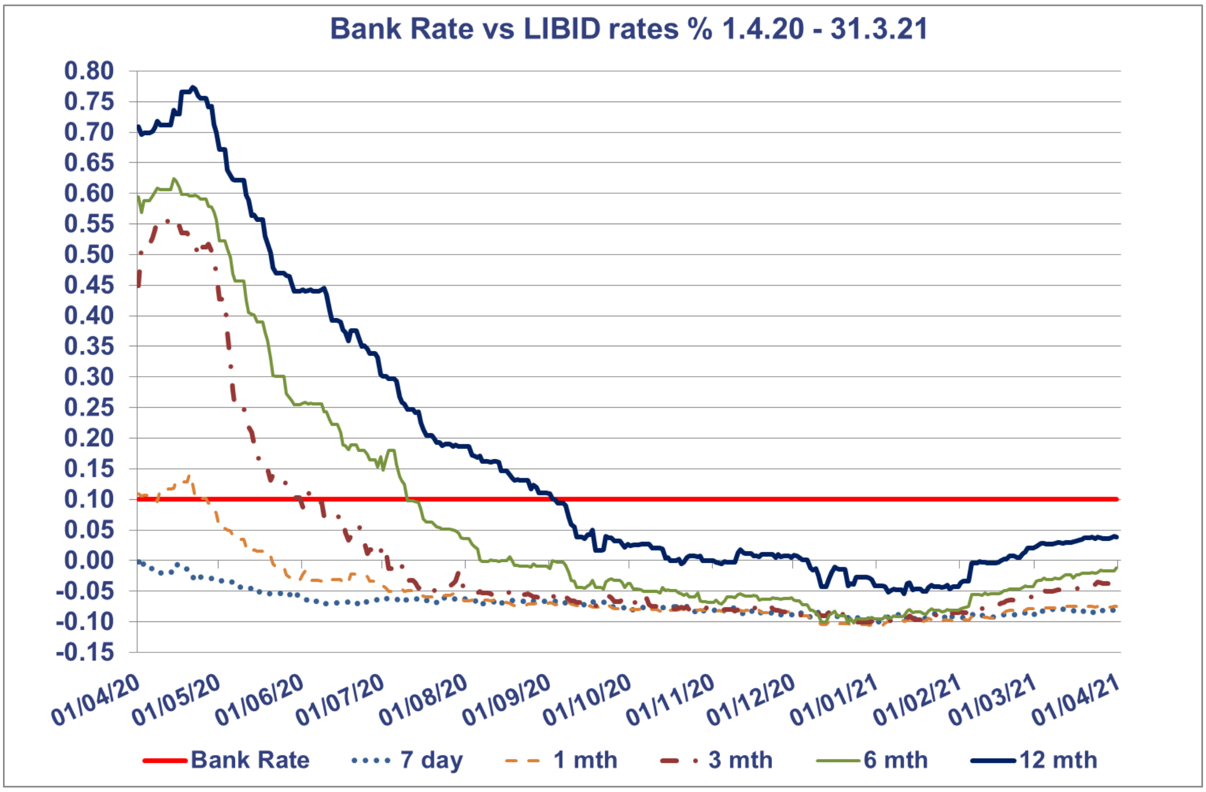
Debt Portfolio	31 March 2020 Principal	Rate/ Return	Average Life (yrs)	31 March 2021 Principal	Rate/ Return	Average Life (yrs)
Total debt (PWLB)	£0m			£0m		
CFR	£4.8m			£4.4m		
Over / (under) borrowing	(£4.8m)			(£4.4m)		
Total investments	£35.3m	0.81%	0.24	£41.0m	0.21%	0.12
Net investments	£35.3m			£41.0m		

5.12.1 The following table sets out the Council's investments held at 31 March 2021:

Counterparty	**Start Date**	**End Date**	**Value (£)**	**Rate %**
Santander UK	180 Day Notice		6,000,000	0.58
Aberdeen GBP Liquidity Fund	Money Market Fund		6,000,000	0.01
Federated Prime Fund Class	Money Market Fund		6,000,000	0.01
Deutsche Bank	Money Market Fund		1,000,000	0.00
Invesco	Money Market Fund		4,000,000	0.01
Morgan Stanley	Money Market Fund		1,000,000	0.01
Handelsbanken	Call Account		6,000,000	0.02
Helaba	22/02/2021	24/05/2021	5,000,000	0.05
Helaba	22/03/2021	22/09/2021	1,000,000	0.12
Natwest (RFB)	22/01/2021	22/07/2021	2,000,000	0.03
Bank of Scotland (RFB)	19/01/2020	19/04/2021	3,000,000	0.01
			41,000,000	

5.13 All investments in the portfolio have a maturity of under 1 year.

Investment strategy and control of interest rate risk



	Bank Rate	7 day	1 mth	3 mth	6 mth	12 mth
High	0.10	0.00	0.14	0.56	0.62	0.77
High Date	01/04/2020	02/04/2020	20/04/2020	08/04/2020	14/04/2020	21/04/2020
Low	0.10	-0.10	-0.11	-0.10	-0.10	-0.05
Low Date	01/04/2020	31/12/2020	29/12/2020	23/12/2020	21/12/2020	11/01/2021
Average	0.10	-0.07	-0.05	0.01	0.07	0.17
Spread	0.00	0.10	0.25	0.66	0.73	0.83

5.14 Investment returns which had been low during 2019/20, plunged during 2020/21 to near zero or even into negative territory. Most local authority lending managed to avoid negative rates and one feature of the year was the growth of inter local authority lending. The expectation for interest rates within the treasury management strategy for 2020/21 was that Bank Rate would continue at the start of the year at 0.75 % before rising to end 2022/23 at 1.25%. This forecast was invalidated by the Covid-19 pandemic bursting onto the scene in March 2020 which caused the Monetary Policy Committee to cut Bank Rate in March, first to 0.25% and then to 0.10%, in order to counter the hugely negative impact of the national lockdown on large swathes of the economy. The Bank of England and the Government also introduced new programmes of supplying the banking system and the economy with massive amounts of cheap credit so that banks could help cash-starved businesses to survive the lockdown. The Government also supplied huge amounts of finance to local authorities to pass on to businesses. This meant that for most of the year there was much more liquidity in financial markets than there was demand to borrow, with the consequent effect that investment earnings rates plummeted.

5.15 While the Council has taken a cautious approach to investing, it is also fully appreciative of changes to regulatory requirements for financial institutions in terms of additional capital and liquidity that came about in the aftermath of the financial crisis. These requirements have provided a far stronger basis for financial institutions, with annual stress tests by regulators evidencing how institutions are now far more able to cope with extreme stressed market and economic conditions.

5.16 Investment balances have been kept to a minimum through the agreed strategy of using reserves and balances to support internal borrowing, rather than borrowing externally from the financial markets. External borrowing would have incurred an additional cost, due to the differential between borrowing and investment rates as illustrated in the charts shown above and below. Such an approach has also provided benefits in terms of reducing the counterparty risk exposure, by having fewer investments placed in the financial markets

Borrowing strategy and control of interest rate risk

5.17 During 2020-21, the Council maintained an under-borrowed position. This meant that the capital borrowing need, (the Capital Financing Requirement), was not fully funded with loan debt, as cash supporting the Council's reserves, balances and cash flow was used as an interim measure. This strategy was prudent as investment returns were low and minimising counterparty risk on placing investments also needed to be considered.

5.18 A cost of carry remained during the year on any new long-term borrowing that was not immediately used to finance capital expenditure, as it would have caused a temporary increase in cash balances; this would have incurred a revenue cost – the difference between (higher) borrowing costs and (lower) investment returns.

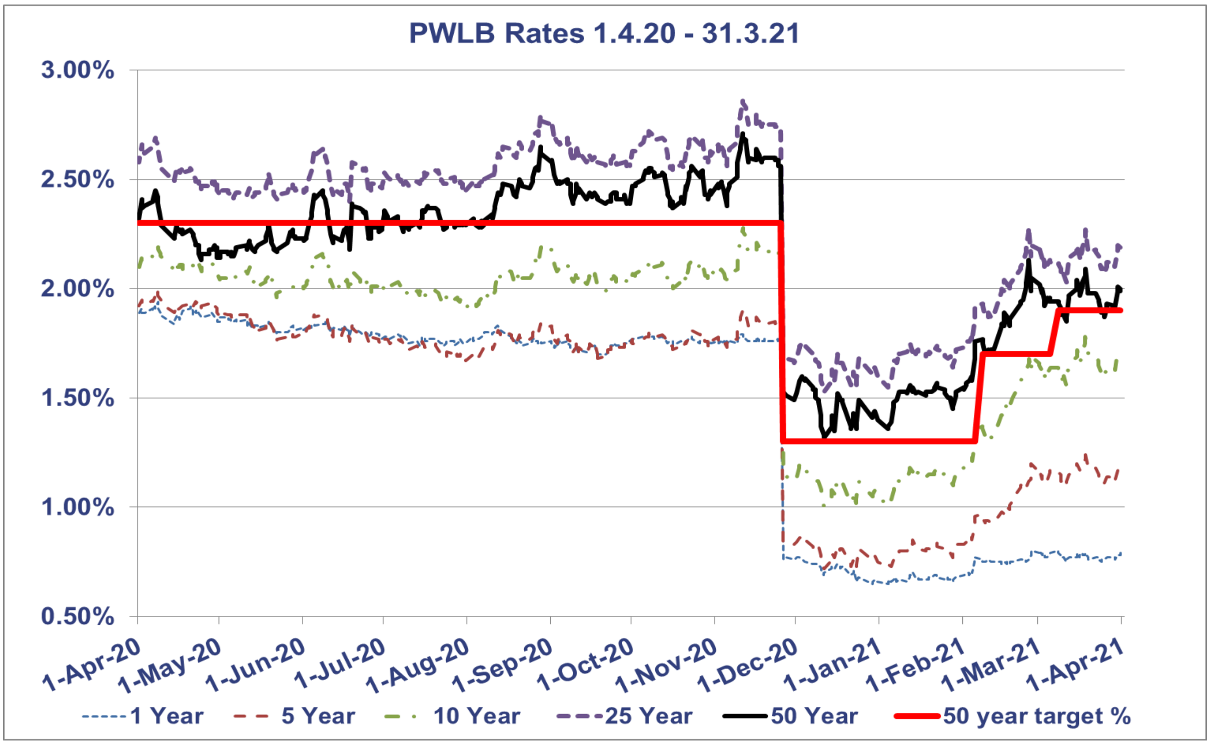
5.19 The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this was kept under review to avoid incurring higher borrowing costs in the future when this authority may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.

5.20 Against this background and the risks within the economic forecast, caution was adopted with the treasury operations. The Head of Finance therefore monitored interest rates in financial markets and adopted a pragmatic strategy based upon the following principles to manage interest rate risks:

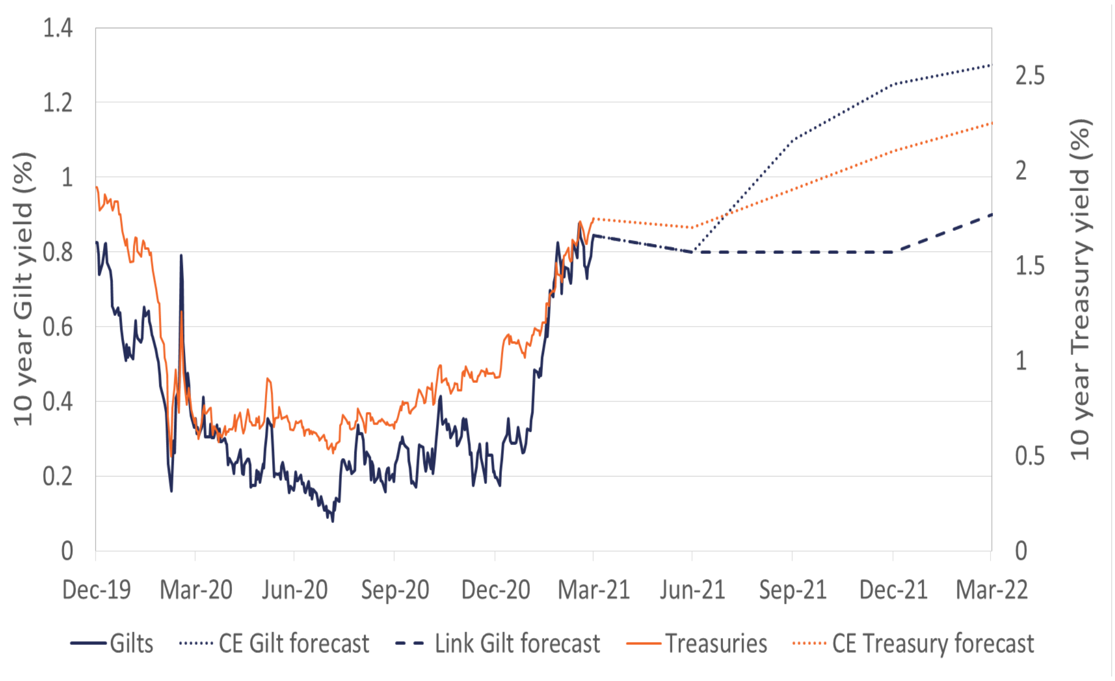
- if it had been felt that there was a significant risk of a sharp FALL in long and short term rates, (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings would have been postponed, and potential rescheduling from fixed rate funding into short term borrowing would have been considered.
- if it had been felt that there was a significant risk of a much sharper RISE in long and short term rates than initially expected, perhaps arising from an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position would have been re-appraised. Most likely, fixed rate funding would have been drawn whilst interest rates were lower than they were projected to be in the next few years.

5.21 Interest rate forecasts expected only gradual rises in medium and longer term fixed borrowing rates during 2020/21 and the two subsequent financial years. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period.

Link Group Interest Rate View	8.3.21												
	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
5 yr PWLB	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.30	1.30	1.40	1.40	1.40	1.40
10 yr PWLB	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.80	1.80	1.90	1.90	1.90	1.90
25 yr PWLB	2.10	2.10	2.10	2.20	2.30	2.30	2.30	2.40	2.40	2.50	2.50	2.50	2.50
50 yr PWLB	1.90	1.90	1.90	2.00	2.10	2.10	2.10	2.20	2.20	2.30	2.30	2.30	2.30



5.22 PWLB rates are based on, and are determined by, gilt (UK Government bonds) yields through HM Treasury determining a specified margin to add to gilt yields. The main influences on gilt yields are Bank Rate, inflation expectations and movements in US treasury yields. Inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation and the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers: this means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. This has pulled down the overall level of interest rates and bond yields in financial markets over the last 30 years. We have seen over the last two years, many bond yields up to 10 years in the Eurozone turn negative on expectations that the EU would struggle to get growth rates and inflation up from low levels. In addition, there has, at times, been an inversion of bond yields in the US whereby 10 year yields have fallen below shorter term yields. In the past, this has been a precursor of a recession.



5.23 Gilt yields fell sharply from the start of 2020 and then spiked up during a financial markets melt down in March caused by the pandemic hitting western countries; this was rapidly countered by central banks flooding the markets with liquidity. While US treasury yields do exert influence on UK gilt yields so that the two often move in tandem, they have diverged during the first three quarters of 2020/21 but then converged in the final quarter. Expectations of economic recovery started earlier in the US than the UK but once the UK vaccination programme started making rapid progress in the new year of 2021, gilt yields and PWLB rates started rising sharply as confidence in economic recovery rebounded. Financial markets also expected Bank Rate to rise quicker than in the forecast tables in this report.

5.24 At the close of the day on 31 March 2021, all gilt yields from 1 to 5 years were between 0.19 – 0.58% while the 10-year and 25-year yields were at 1.11% and 1.59%.

5.25 HM Treasury imposed two changes of margins over gilt yields for PWLB rates in 2019/20 without any prior warning. The first took place on 9 October 2019, adding an additional 1% margin over gilts to all PWLB period rates. That increase was then, at least partially, reversed for some forms of borrowing on 11 March 2020, but not for mainstream non-HRA capital schemes. A consultation was then held with local authorities and on 25 November 2020, the Chancellor announced the conclusion to the review of margins over gilt yields for PWLB rates; the standard and certainty margins were reduced by 1% but a prohibition was introduced to deny access to borrowing from the PWLB for any local authority which had purchase of assets for yield in its three year capital programme. The new margins over gilt yields are as follows:-.

- PWLB Standard Rate is gilt plus 100 basis points (G+100bps)
- PWLB Certainty Rate is gilt plus 80 basis points (G+80bps)
- PWLB HRA Standard Rate is gilt plus 100 basis points (G+100bps)

- PWLB HRA Certainty Rate is gilt plus 80bps (G+80bps)
- Local Infrastructure Rate is gilt plus 60bps (G+60bps)

There is likely to be only a gentle rise in gilt yields and PWLB rates over the next three years as Bank Rate is not forecast to rise from 0.10% by March 2024 as the Bank of England has clearly stated that it will not raise rates until inflation is sustainably above its target of 2%; this sets a high bar for Bank Rate to start rising.

Borrowing Outturn

5.26 **Borrowing** - Due to investment concerns, both counterparty risk and low investment returns, no borrowing was undertaken during the year.

Investment Outturn

5.27 **Investment Policy** - the Council's investment policy is governed by MHCLG guidance, which has been implemented in the approved annual investment strategy. This policy sets out the approach for choosing investment counterparties and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data, (such as rating outlooks, credit default swaps, bank share prices etc).

5.28 The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

5.29 **Resources** – the Council's cash balances comprise revenue and capital resources and cash flow monies. The Council's core cash resources comprised as follows:

Balance Sheet Resources (£m)	**31 March 2020**	**31 March 2021**
	£'000	£'000
Earmarked Fund balances / reserves	19,888	25,239
Unallocated Reserves	226	395
Capital receipts	2,242	1,399
Capital grants		3,191
Provisions	2,693	3,170
Other S106 capital	2,808	2,842
Other S106 revenue		1,415
Total	**27,857**	**37,651**

5.30 **Investments held by the Council**

- The Council maintained an average balance of £47.8.m of internally managed funds.
- The internally managed funds earned an average rate of return of 0.21%.
- Total investment income was £100,676 compared to a budget of £100,000.

5.31 Due to the unforeseen Government grants to assist in dealing with the coronavirus outbreak, balances were held with Barclays were temporarily in excess of £6m to ensure the council had adequate liquidity to make the grant payments out swiftly.

6 Implications

6.1	**Financial**	Included in the report
	Legal	Nil
	Human Resources	Nil
	Human Rights Act	Nil
	Data Protection	Nil
	Risk Management	Included in the report

6.2	**Community Impact Assessment Recommendations**	Impact on Public Sector Equality Duty: Nil Wider Community Impact: Nil

Previous Consideration - Nil

Background Papers - Available in Financial Services

APPENDIX 1

AUDIT AND ACCOUNTS COMMITTEE
18 JANUARY 2022
Annual Treasury Management Report 2020/21

1. PRUDENTIAL INDICATORS	2019/20	2020/21	2020/21
	Actual	Estimate	Actual
	£'000	£'000	£'000
Capital Expenditure	2,894	5,642	5,005
Ratio of financing costs to net revenue stream	-0.2%	1.1%	-0.3%
Gross borrowing requirement – Finance leases	2,301	2,049	2,049
Gross debt	0	0	0
Capital Financing Requirement as at 31 March	4,786	4,412	4,434
Annual change in Cap. Financing Requirement	-356	-374	-352
2. TREASURY MANAGEMENT INDICATORS			
Authorised Limit for external debt -	8,445	7,534	7,534
Operational Boundary for external debt	5,445	4,534	4,534
Actual external debt	0	0	0

Maturity structure of fixed rate borrowing during 2020/21	upper limit	lower limit
under 12 months	100%	0%
12 months and within 24 months	100%	0%
24 months and within 5 years	100%	0%
5 years and within 10 years	100%	0%
10 years and above	100%	0%

APPENDIX 2

AUDIT AND ACCOUNTS COMMITTEE

18 JANUARY 2022

Annual Treasury Management Report 2020/21

The following table sets out an analysis of investments held at 31 March 2021 (together with a comparator at 31 March 2020).

INVESTMENT PORTFOLIO	**Actual 31.3.20**	**Actual 31.3.20 %**	**Actual 31.3.21**	**Actual 31.3.21 %**
Money Market Funds	£18.3m	52%	£18.0m	44%
Banks	£12.0m	34%	£23.0m	56%
Local authorities	£5.0m	14%	£0.0m	0%
TOTAL TREASURY INVESTMENTS	£35.3m	100%	£41.0m	100%

ITEM NO 3(b)

ITEM NO 3(b)

Report of:	**Interim Head of Finance**
Contact Officer:	**Tim Willis**
Telephone No:	
Ward Interest:	**Nil**
Report Track:	**Cabinet 13/01/2022 Audit and Accounts 18/01/2022 Council 01/02/2022**

AUDIT AND ACCOUNTS COMMITTEE

18 JANUARY 2022

Treasury Management Strategy, Minimum Revenue Provision Policy, Annual Investment Strategy 2022/23

The following matter was considered by Cabinet at its meeting held on 13 January 2022 and is submitted to Committee as required.

1 Purpose of Report

1.1 This report is presented to obtain the Council's approval to:-

- Prudential and Treasury indicators - setting of indicators to ensure that the capital investment plans of the Council are affordable, prudent and sustainable;
- The Minimum Revenue Provision (MRP) Policy;
- Treasury Management Strategy Statement for 2022/23 - to set treasury limits for 2022/23 to 2023/24 and to provide a background to the latest economic forecasts of interest rates;
- Annual Investment Strategy 2022/23 - to set out the strategy of investment of surplus funds.

2 Recommendation

2.1 To note the following for approval by Council:-

(a) The Prudential and Treasury indicators;
(b) The MRP Policy Statement;
(c) The Treasury Management Policy;
(d) The Annual Investment Strategy for 2022/23;

2.2 To note that indicators may change in accordance with the final recommendations from Cabinet to Council in relation to both the General Fund Revenue Budget and the Capital Programme.

3 Key Issues and Reasons for Recommendations

3.1 The Council is required to approve its treasury management, investment and capital strategies to ensure that cash flow is adequately planned and that surplus monies are invested appropriately.

4 Relationship to Corporate Priorities

4.1 Treasury management and investment activity link in with all of the Council's priorities and their spending plans.

5 Report Detail

Background

5.1 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

5.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.

5.3 The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

5.4 CIPFA defines treasury management as:

"The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

5.5 This authority has not engaged in any commercial investments and has no non-treasury investments.

Reporting Requirements

5.6 **Capital Strategy -** The CIPFA 2017 Prudential and Treasury Management Codes required all local authorities to prepare a capital strategy report which would provide the following:

- a high-level long term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how the associated risk is managed
- the implications for future financial sustainability

5.7 The aim of this capital strategy is to ensure that all elected members on the Council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

5.8 The capital strategy approved on the 6 December 2018 covers the period 2018/22 but has been extended a further year.

5.9 **Treasury Management reporting -** The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals:-

5.10 **Prudential and treasury indicators and treasury strategy** (this report) - The first, and most important report covers:-

- the capital plans (including prudential indicators);
- a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time);
- the Treasury Management Strategy (how the investments and borrowings are to be organised) including treasury indicators; and
- an Investment Strategy (the parameters on how investments are to be managed).

5.11 **A mid year treasury management report** - This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision.

5.12 **An annual treasury report** - This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

5.13 **Scrutiny** - The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Audit and Accounts Committee.

5.14 The Council has adopted the following reporting arrangements in accordance with the requirements of the CIPFA Code of Practice:-

Area of Responsibility	**Council/Committee**	**Frequency**
Treasury Management Strategy/ Annual Investment Strategy/ MRP policy	Full Council	Annually in January/February each year
Treasury Management Strategy/ Annual Investment Strategy/ MRP policy/Monitoring of Prudential Indicators	Full Council	Mid year
Treasury Management Strategy/ Annual Investment Strategy/ MRP policy - updates or revisions at other times	Full Council	As required
Annual Treasury Outturn Report	Audit and Accounts Committee and Council	Annually by 30 September after the end of the year
Scrutiny of treasury management strategy	Audit and Accounts Committee	Annually, before the start of the year

Treasury Management Strategy for 2022/23

5.15 The strategy for 2022/23 covers two main areas:-

Capital issues

- the capital expenditure plans and the associated prudential indicators;
- the minimum revenue provision (MRP) policy.

Treasury management issues

- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;

- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- policy on use of external service providers.

5.16 These elements cover the requirements of the Local Government Act 2003, DLUHC Investment Guidance, DLUHC MRP Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code.

Training

5.17 The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. Training has been undertaken by members of the Audit and Accounts Committee in January 2020.

5.18 The training needs of treasury management officers are periodically reviewed.

Treasury Management Consultants

5.19 The Council uses Link Asset Services, Treasury Solutions as its external treasury management advisors.

5.20 The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

The Capital Prudential Indicators 2022/23 - 2024/25

5.21 The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

Capital expenditure

5.22 This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts, which include a review of current schemes together with the continuation of the applicable rolling programme schemes, but to note these may change as part of the scrutiny process and finalisation of the Budget.

5.23 Any change to the forecast and any new growth bids will be separately identified in future Budget Reports and reflected in this indicator as reported to full Council.

Capital Expenditure	2020/21 Actual £'000	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000	2024/25 Estimate £'000	Earmarked £'000
Community Portfolio	752	1,627	2,408	1,341	1,341	2,034
Environment Portfolio	171	424	150	50	50	202
Leisure and Culture Portfolio	1,354	416	2,406	-	-	16
Planning and Regeneration	2,500	1,176	14,519	3,078	1,269	3,548
Resources Portfolio	228	132	50	-	50	750
Total	**5,005**	**3,775**	**19,533**	**4,469**	**2,710**	**6,550**

5.24 **Other long term liabilities**. The financing need excludes other long term liabilities, such leasing arrangements which already include borrowing instruments.

5.25 The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Capital Expenditure	2020/21 Actual £'000	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000	2024/25 Estimate £'000	Unallocated £'000
Total Spend	**5,005**	**3,775**	**19,533**	**4,469**	**2,710**	**6,550**
Financed by						
Capital Receipts	1,900	464	1,164	50	-	-
Capital Grants/ Contributions	1,667	2,714	14,552	4,419	1,341	2,084
Revenue	1,438	597	2,389	-	1,369	4,466
Net financing need for the year	-	-	1,428	-	-	-

5.26 The capital financing of the programme will similarly be reviewed as part of the Budget process and any change will be separately identified in future Budget Reports and reflected in this indicator.

The Council's borrowing need (the Capital Financing Requirement)

5.27 The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness and so its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for through a revenue or capital resource, will increase the CFR.

5.28 The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each assets life and so charges the economic consumption of capital assets as they are used.

5.29 The CFR includes any other long-term liabilities (e.g. finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility by the PPP lease provider and so the Council is not required to separately borrow for these schemes. The Council currently has £2.049m of such Finance Leases within the CFR, however going forward it is anticipated that this will rise to £3.549m in respect of the Civic Centre leased land coming on balance sheet.

5.30 The Council is asked to approve the following CFR projections, subject to any changes arising from the budget process:-

Capital Financing Requirement

	2020/21 Actual £'000	**2021/22 Estimate £'000**	**2022/23 Estimate £'000**	**2023/24 Estimate £'000**	**2024/25 Estimate £'000**
Total CFR	4,786	4,434	4,077	6,705	6,485
Movement in CFR		(357)	2,628	(220)	(190)

Movement in CFR represented by

	2020/21 Actual £'000	**2021/22 Estimate £'000**	**2022/23 Estimate £'000**	**2023/24 Estimate £'000**	**2024/25 Estimate £'000**
Net financing need for the year	-	-	1,428	-	-
Less MRP and other financing movements		(357)	1,200	(220)	(190)
Movement in CFR		(357)	2,628	(220)	(190)

Core funds and expected investment balances

5.31 The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year-end balances for each resource and anticipated day-to-day cash flow balances.

Year End Resources	2020/21 Actual £'000	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000	2024/25 Estimate £'000
Earmarked Fund Balances/ Reserves	25,239	25,695	24,537	22,547	21,729
Unallocated Reserves	395	347	347	347	347
Capital Receipts	1,399	1,223	59	9	9
Capital Grants	3,191	5,532	2,127	1,216	1,272
Provisions	3,170	3,170	3,170	0	0
Other S106 Capital	2,842	2,827	1,127	1,127	1,127
Other S106 Revenue	1,415	1,880	1,412	1,412	1,412
Total Core Funds	**37,651**	**40,674**	**32,779**	**26,658**	**25,896**
Working Cashflow Requirement	-5,737	5,000	5,000	5,000	5,000
Under/Over Borrowing	2,385	2,289	2,197	2,080	1,967
Expected Investments	**41,003**	**33,385**	**25,582**	**19,578**	**18,929**

*Working cashflow requirements shown are estimated year-end.

Minimum revenue provision (MRP) policy statement

5.32 The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP).

5.33 DLUHC Regulations have been issued which require the full Council to approve an MRP Statement in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision. The Council is recommended to approve the following MRP Statement:-

5.34 The Council implemented the new Minimum Revenue Provision (MRP) guidance in 2008/09 and will assess MRP for 2009/10 onwards in accordance with the recommendations contained within the guidance issued by the Secretary of State under section 21(1A) of the Local Government Act 2003.

5.35 Under powers delegated to the Section 151 Officer, the Council's annual MRP provision for expenditure incurred after 1 April 2008 and before 31 March 2017 will be based on the uniform rate of 4% of the Capital Financing Requirement. The Council's annual MRP provision for expenditure incurred on or after 1 April 2017 will be based on the asset life method i.e. the provision will be calculated with reference to the estimated life of the assets acquired, in accordance with the regulations.

5.36 MRP will be applicable from the year following that in which the asset is brought into operation.

5.37 Repayments included in finance leases are applied as MRP.

5.38 The Council are satisfied that the policy for calculating MRP set out in this policy statement will result in the Council continuing to make prudent provision for the repayment of debt, over a period that is on average reasonably commensurate with that over which the expenditure provides benefit.

5.39 The Section 151 Officer will, where it is prudent to do so, use discretion to review the overall financing of the Capital Programme and the opportunities afforded by the regulations, to maximise the benefit to the Council whilst ensuring the Council meets its duty to charge a prudent provision.

5.40 **MRP Overpayments** - A change introduced by the revised MHCLG MRP Guidance was the allowance that any charges made over the statutory minimum revenue provision (MRP), voluntary revenue provision or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. The Council has previously not made any MRP overpayments.

Affordability prudential indicators

5.41 The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators:-

Ratio of financing costs to net revenue stream

5.42 This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

%	2020/21 Actual	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Ratio of financing costs	-0.3	1.6	1.3	0.2	0.0

Borrowing

5.43 The capital expenditure plans provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury/prudential indicators, the current and projected debt positions and the annual investment strategy.

Current portfolio position

5.44 The Council's forward projections for borrowing are summarised below. The table shows the actual external debt against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

	2020/21 Actual £'000	**2021/22 Estimate £'000**	**2022/23 Estimate £'000**	**2023/24 Estimate £'000**	**2024/25 Estimate £'000**
External Debt					
PWLB debt at 1 April	-	-	-	1,428	-
Expected change in Debt	-	-	-	1,428	-
Other long-term liabilities (OLTL)	2,049	1,788	3,080	4,405	4,328
Expected change in OLTL		(261)	1,292	(103)	(77)
Actual gross debt at 31 March	2,049	1,788	4,508	4,405	4,328
The Capital Financing Requirement	4,434	4,077	6,705	6,485	6,295
Under / (over) Borrowing	2,385	2,289	2,197	2,080	1,967

5.45 Within the range of prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2022/23 and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue or speculative purposes.

5.46 The Head of Finance reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals contained in the General Fund Budget.

Treasury Indicators: limits to borrowing activity

5.47 **The operational boundary**. This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

Operational Boundary	**2021/22 Estimate £'000**	**2022/23 Estimate £'000**	**2023/24 Estimate £'000**	**2024/25 Estimate £'000**
Debt	2,385	3,813	12,813	15,713
Other long term liabilities	1,788	3,080	2,977	2,900
Total	**4,173**	**6,893**	**15,790**	**15,713**

5.48 **The authorised limit for external debt**. This is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

1. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

2. The Council is asked to approve the following authorised limit:-

Authorised Limit	**2021/22 Estimate £'000**	**2022/23 Estimate £'000**	**2023/24 Estimate £'000**	**2024/25 Estimate £'000**
Debt	5,385	6,813	15,813	15,813
Other long term liabilities	1,788	3,080	2,977	2,900
Total	**7,173**	**9,893**	**18,790**	**18,713**

Prospects for interest rates

5.49 The Council has appointed Link Group as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Link provided the following forecasts on 8th November 2021. These are forecasts for certainty rates, gilt yields plus 80 bps.

Link Group Interest Rate View 8.11.21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
BANK RATE	0.25	0.25	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25
3 month ave earnings	0.30	0.40	0.50	0.50	0.50	0.60	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00
6 month ave earnings	0.40	0.50	0.60	0.60	0.70	0.80	0.90	1.00	1.10	1.10	1.10	1.10	1.10	1.10
12 month ave earnings	0.50	0.60	0.70	0.70	0.80	0.90	1.00	1.10	1.20	1.20	1.20	1.20	1.20	1.20
5 yr PWLB	1.50	1.50	1.60	1.60	1.70	1.70	1.70	1.80	1.80	1.80	1.90	1.90	2.00	2.00
10 yr PWLB	1.80	1.90	1.90	2.00	2.00	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.30	2.40
25 yr PWLB	2.10	2.20	2.30	2.40	2.40	2.40	2.50	2.50	2.60	2.60	2.60	2.60	2.70	2.70
50 yr PWLB	1.90	2.00	2.10	2.20	2.20	2.20	2.30	2.30	2.40	2.40	2.40	2.40	2.50	2.50

5.50 The coronavirus outbreak has done huge economic damage to the UK and to economies around the world. After the Bank of England took emergency action in March 2020 to cut Bank Rate to 0.10%, it left Bank Rate unchanged at its subsequent meetings. As shown in the forecast table above, the forecast for Bank Rate now includes five increases, one in December 2021 to 0.25%, then quarter 2 of 2022 to 0.50%, quarter 1 of 2023 to 0.75%, quarter 1 of 2024 to 1.00% and, finally, one in quarter 1 of 2025 to 1.25%. Following on from this forecast, the Bank of England raised interest rates to 0.25% from 16 December 2021.

Significant risks to the forecasts

- **Labour and supply shortages** prove more enduring and disruptive and depress economic activity.
- **Mutations** of the virus render current vaccines ineffective, and tweaked vaccines to combat these mutations are delayed, resulting in further national lockdowns or severe regional restrictions.
- **The Monetary Policy Committee** acts too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- **The Monetary Policy Committee** tightens monetary policy too late to ward off building inflationary pressures.
- **The Government** acts too quickly to cut expenditure to balance the national budget.
- **UK / EU trade arrangements** – if there was a major impact on trade flows and financial services due to complications or lack of co-operation in sorting out significant remaining issues.

- **Longer term US treasury yields** rise strongly and pull gilt yields up higher than forecast.

- **Major stock markets** e.g., in the US, become increasingly judged as being over-valued and susceptible to major price corrections. Central banks become increasingly exposed to the "moral hazard" risks of having to buy shares and corporate bonds to reduce the impact of major financial market selloffs on the general economy.

- **Geopolitical risks,** for example in Iran, North Korea, but also in Europe and Middle Eastern countries; on-going global power influence struggles between Russia/China/US. These could lead to increasing safe-haven flows.

The balance of risks to the UK economy: -

- The overall balance of risks to economic growth in the UK is now to the downside, including residual risks from Covid and its variants - both domestically and their potential effects worldwide.

5.51 **Forecasts for Bank Rate**

It is not expected that Bank Rate will go up fast after the initial rate rise as the supply potential of the economy is not likely to have taken a major hit during the pandemic: it should, therefore, be able to cope well with meeting demand after supply shortages subside over the next year, without causing inflation to remain elevated in the medium-term, or to inhibit inflation from falling back towards the MPC's 2% target after the spike up to around 5%. The forecast includes five increases in Bank Rate over the three-year forecast period to March 2025, ending at 1.25%. However, it is likely that these forecasts will need changing within a relatively short timeframe for the following reasons: -

- There are increasing grounds for viewing the economic recovery as running out of steam in the near term. This could lead into stagflation which would create a dilemma for the MPC as to whether to focus on combating inflation or supporting economic growth through keeping interest rates low.
- Will some current key supply shortages spill over into causing economic activity in some sectors to take a significant hit?
- Rising gas and electricity prices in October and next April and increases in other prices caused by supply shortages and increases in taxation next April, are already going to deflate consumer spending power without the MPC having to take any action on Bank Rate to cool inflation.
- On the other hand, consumers are sitting on over £160bn of excess savings left over from the pandemic so when will they spend this sum, in part or in total?
- It is estimated that there were around 1 million people who came off furlough at the end of September; how many of those would not have had jobs on 1 October and would therefore be available to fill labour shortages which are creating a major headache in many sectors of the economy? So, supply shortages which have been driving up both wages and costs,

could reduce significantly within the next six months or so and alleviate one of the MPC's key current concerns.

- We also recognise there could be further nasty surprises on the Covid front, on top of the flu season this winter, and even the possibility of another lockdown, which could all depress economic activity.
- If the UK invokes article 16 of the Brexit deal over the dislocation in trading arrangements with Northern Ireland, this has the potential to end up in a no deal Brexit.

5.52 In summary, with the high level of uncertainty prevailing on several different fronts, it is likely that these forecasts will be revised again over the next few months - in line with what the new news is. It should also be borne in mind that Bank Rate being cut to 0.10% was an emergency measure to deal with the Covid crisis hitting the UK in March 2020. Since this forecast, the Bank of England has reversed the emergency measure by raising interest rates to 0.25% on 16 December 2021. It should be noted however, that any Bank Rate under 1% is both highly unusual and highly supportive of economic growth.

5.53 **Forecasts for PWLB rates and gilt and treasury yields**
As the interest forecast table for PWLB certainty rates above shows, there is likely to be a steady rise over the forecast period, with some degree of uplift due to rising treasury yields in the US.

There is likely to be **exceptional volatility and unpredictability in respect of gilt yields and PWLB rates** due to the following factors: -

- How strongly will changes in gilt yields be correlated to changes in US treasury yields (see below). Over 10 years since 2011 there has been an average 75% correlation between movements in US treasury yields and gilt yields. However, from time to time these two yields can diverge. Lack of spare economic capacity and rising inflationary pressures are viewed as being much greater dangers in the US than in the UK. This could mean that central bank rates will end up rising earlier and higher in the US than in the UK if inflationary pressures were to escalate; the consequent increases in treasury yields could well spill over to cause (lesser) increases in gilt yields. There is, therefore, an upside risk to forecasts for gilt yields due to this correlation. The Link Group forecasts have included a risk of a 75% correlation between the two yields.
- Will the Fed take action to counter increasing treasury yields if they rise beyond a yet unspecified level?
- Would the MPC act to counter increasing gilt yields if they rise beyond a yet unspecified level?
- How strong will inflationary pressures actually turn out to be in both the US and the UK and so put upward pressure on treasury and gilt yields?
- How will central banks implement their new average or sustainable level inflation monetary policies?
- How well will central banks manage the withdrawal of QE purchases of their national bonds i.e., without causing a panic reaction in financial markets as happened in the "taper tantrums" in the US in 2013?

- Will exceptional volatility be focused on the short or long-end of the yield curve, or both?

5.54 The forecasts are also predicated on an assumption that there is no break-up of the Eurozone or EU within the forecasting period, despite the major challenges that are looming up, and that there are no major ructions in international relations, especially between the US and China / North Korea and Iran, which have a major impact on international trade and world GDP growth.

5.55 **Gilt and treasury yields**
Since the start of 2021, there has been a lot of volatility in gilt yields, and hence PWLB rates. During the first part of the year, US President Biden's, and the Democratic party's, determination to push through a $1.9trn (equivalent to 8.8% of GDP) fiscal boost for the US economy as a recovery package from the Covid pandemic was what unsettled financial markets. However, this was in addition to the $900bn support package already passed in December 2020. This was then followed by additional Democratic ambition to spend $1trn on infrastructure, which has just been passed by both houses, and an even larger sum on an American families plan over the next decade; this is still caught up in Democrat / Republican haggling. Financial markets were alarmed that all this stimulus was happening at a time when: -

1. A fast vaccination programme has enabled a rapid opening up of the economy.
2. The economy has been growing strongly during 2021.
3. It started from a position of little spare capacity due to less severe lockdown measures than in many other countries.
4. And the Fed was still providing stimulus through monthly QE purchases.

5.56 These factors could cause an excess of demand in the economy which could then unleash strong inflationary pressures. This could then force the Fed to take much earlier action to start increasing the Fed rate from near zero, despite their stated policy being to target average inflation.

5.57 **At its 3 November Fed meeting**, the Fed decided to make a start on tapering QE purchases with the current $80bn per month of Treasury securities to be trimmed by $10bn in November and a further $10bn in December. The $40bn of MBS purchases per month will be trimmed by $5bn in each month. If the run-down continued at that pace, the purchases would cease entirely next June but the Fed has reserved the ability to adjust purchases up or down. This met market expectations. These purchases are currently acting as downward pressure on treasury yields and so it would be expected that Treasury yields would rise as a consequence over the taper period, all other things being equal.

However, on the inflation front it was still insisting that the surge in inflation was "largely" transitory. In his post-meeting press conference, Chair Jerome Powell claimed that "the drivers of higher inflation have been predominantly

connected to the dislocations caused by the pandemic" and argued that the Fed's tools cannot address supply constraints. However, with the Fed now placing major emphasis on its mandate for ensuring full employment, (besides containing inflation), at a time when employment has fallen by 5 million and 3 million have left the work force, resignations have surged due to the ease of getting better paid jobs and so wage pressures have built rapidly.
With wage growth at its strongest since the early 1980s, inflation expectations rising and signs of a breakout in cyclical price inflation, particularly rents, the FOMC's insistence that this is still just a temporary shock "related to the pandemic and the reopening of the economy", does raise doubts which could undermine market confidence in the Fed and lead to higher treasury yields.

5.58 As the US financial markets are, by far, the biggest financial markets in the world, any upward trend in treasury yields will invariably impact and influence financial markets in other countries. Inflationary pressures and erosion of surplus economic capacity look much stronger in the US compared to those in the UK, which would suggest that Fed rate increases eventually needed to suppress inflation, are likely to be faster and stronger than Bank Rate increases in the UK. This is likely to put upward pressure on treasury yields which could then spill over into putting upward pressure on UK gilt yields.

The balance of risks to medium to long term PWLB rates: -

- There is a balance of upside risks to forecasts for medium to long term PWLB rates.

5.59 **A new era – a fundamental shift in central bank monetary policy**
One of the key results of the pandemic has been a fundamental rethinking and shift in monetary policy by major central banks like the Fed, the Bank of England and the ECB, to tolerate a higher level of inflation than in the previous two decades when inflation was the prime target to bear down on so as to stop it going above a target rate. There is now also a greater emphasis on other targets for monetary policy than just inflation, especially on 'achieving broad and inclusive "maximum" employment in its entirety' in the US, before consideration would be given to increasing rates.

- The Fed in America has gone furthest in adopting a monetary policy based on a clear goal of allowing the inflation target to be symmetrical, (rather than a ceiling to keep under), so that inflation averages out the dips down and surges above the target rate, over an unspecified period of time.
- The Bank of England has also amended its target for monetary policy so that inflation should be 'sustainably over 2%' before starting on raising Bank Rate and the ECB now has a similar policy.
- **<u>For local authorities, this means that investment interest rates and very short term PWLB rates will not be rising as quickly or as high as in previous decades when the economy recovers from a downturn and the recovery eventually runs out of spare capacity to fuel continuing expansion.</u>**
- Labour market liberalisation since the 1970s has helped to break the wage-price spirals that fuelled high levels of inflation and has now set inflation on a lower path which makes this shift in monetary policy

practicable. In addition, recent changes in flexible employment practices, the rise of the gig economy and technological changes, will all help to lower inflationary pressures.

- Governments will also be concerned to see interest rates stay lower as every rise in central rates will add to the cost of vastly expanded levels of national debt; (in the UK this is £21bn for each 1% rise in rates). On the other hand, higher levels of inflation will help to erode the real value of total public debt.

Investment and borrowing rates

- **Investment returns** are expected to improve in 2022/23. However, while markets are pricing in a series of Bank Rate hikes, actual economic circumstances may see the MPC fall short of these elevated expectations.

- **Borrowing interest rates** fell to historically very low rates as a result of the COVID crisis and the quantitative easing operations of the Bank of England and still remain at historically low levels. The policy of avoiding new borrowing by running down spare cash balances has served local authorities well over the last few years.

- On 25 November 2020, the Chancellor announced the conclusion to the review of margins over gilt yields for PWLB rates which had been increased by 100 bps in October 2019. The standard and certainty margins were reduced by 100 bps but a prohibition was introduced to deny access to borrowing from the PWLB for any local authority which had purchase of assets for yield in its three-year capital programme. The current margins over gilt yields are as follows: -.

    - **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
    - **PWLB Certainty Rate** is gilt plus 80 basis points (G+80bps)
    - **PWLB HRA Standard Rate** is gilt plus 100 basis points (G+100bps)
    - **PWLB HRA Certainty Rate** is gilt plus 80bps (G+80bps)
    - **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)

- **Borrowing for capital expenditure.** Our long-term (beyond 10 years), forecast for Bank Rate is 2.00%. As some PWLB certainty rates are currently below 2.00%, there remains value in considering long-term borrowing from the PWLB where appropriate. Temporary borrowing rates are likely, however, to remain near Bank Rate and may also prove attractive as part of a balanced debt portfolio. In addition, there are also some cheap alternative sources of long-term borrowing if an authority is seeking to avoid a "cost of carry" but also wishes to mitigate future re-financing risk.

Borrowing strategy

5.60 The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.

5.61 Against this background and the risks within the economic forecast, caution will be adopted with the 2022/23 treasury operations. The Head of Finance will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.

5.62 Any decisions will be reported to members appropriately at the next available opportunity.

Treasury management limits on activity

5.63 Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

5.64 The Council is asked to approve the following treasury indicators and limits:-

Maturity structure of fixed interest rate borrowing 2022/23

	Lower	**Upper**
Under 12 months	0%	100%
12 months to 2 years	0%	100%
2 years to 5 years	0%	100%
5 years to 10 years	0%	100%
10 years and above	0%	100%

Maturity structure of variable interest rate borrowing 2022/23

	Lower	**Upper**
Under 12 months	0%	75%
12 months to 2 years	0%	75%
2 years to 5 years	0%	75%
5 years to 10 years	0%	75%
10 years and above	0%	75%

Policy on borrowing in advance of need

5.65 The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

5.66 Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

New financial institutions as a source of borrowing and / or types of borrowing

5.67 Currently the PWLB Certainty Rate is set at gilts + 80 basis points for both HRA and non-HRA borrowing. However, consideration may still need to be given to sourcing funding from the following sources for the following reasons:

- Local authorities (primarily shorter dated maturities)
- Financial institutions (primarily insurance companies and pension funds but also some banks, out of forward dates where the objective is to avoid a "cost of carry" or to achieve refinancing certainty over the next few years).

5.68 Our advisors will keep us informed as to the relative merits of each of these alternative funding sources.

Annual Investment Strategy

Investment policy – management of risk

5.69 The Department of Levelling Up, Housing and Communities (DLUHC - this was formerly the Ministry of Housing, Communities and Local Government (MHCLG)) and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with treasury (financial) investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy, (a separate report).

5.70 The Council's investment policy has regard to the following: -

- DLUHC's Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the Code")
- CIPFA Treasury Management Guidance Notes 2018

5.71 The Council's investment priorities will be security first, portfolio liquidity second and then yield, (return). The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with the Council's risk appetite. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs. However, where appropriate (from an internal as well as external perspective), the Council will also consider the value available in periods up to 12 months with high credit rated financial institutions.

5.72 The above guidance from the DLUHC and CIPFA place a high priority on the management of risk. This authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means: -

(a) Minimum acceptable credit criteria are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.

(b) Ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as “credit default swaps” and overlay that information on top of the credit ratings.

(c) Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

5.73 This authority has defined the list of types of investment instruments that the treasury management team are authorised to use, as per **APPENDIX 2**.

- Specified investments are those with a high level of credit quality and subject to a maturity limit of one year.
- Non-specified investments are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.

5.74 **Non-specified investments limit.** The Council has determined that it will limit the maximum total exposure to non-specified investments as being 50% of the total investment portfolio.

5.75 **Lending limits**, (amounts and maturity), for each counterparty will be set through applying the matrix table in the **APPENDIX 2**.

5.76 **Transaction limits** are set for each type of investment in **APPENDIX 2**.

5.77 This authority will set a limit for the amount of its investments which are invested for longer than 365 days.

5.78 Investments will only be placed with counterparties from countries with a specified minimum sovereign rating.

5.79 This authority has engaged external consultants, to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.

5.80 All investments will be denominated in sterling.

5.81 As a result of the change in accounting standards for 2022/23 under IFRS 9, this authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the MHCLG, concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years ending 31 March 2023.

5.82 However, this authority will also pursue value for money in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance. Regular monitoring of investment performance will be carried out during the year.

Creditworthiness policy

5.83 The Council applies the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:-

- credit watches and credit outlooks from credit rating agencies;
- CDS spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

5.84 This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will therefore use counterparties within the following durational bands:-

- Yellow 5 years
- Dark pink 5 years for **Ultra-Short Dated Bond Funds with a credit score of 1.25**
- Light pink **5 years for Ultra-Short Dated Bond Funds with a credit score of 1.5**

- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No colour not to be used

5.85 The Link creditworthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system, does not give undue preponderance to just one agency's ratings.

5.86 Typically the minimum credit ratings criteria the Council use will be a short term rating (Fitch or equivalents) of F1 and a long term rating of A- or equivalent. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

5.87 All credit ratings will be monitored weekly. The Council is alerted to changes to ratings of all three agencies through its use of our creditworthiness service.

- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

5.88 Sole reliance will not be placed on the use of this external service. In addition the Council will also use market data and market information, information on any external support for banks to help support its decision making process.

5.89 The Council has determined that it will only use approved counterparties from the UK and countries with a minimum sovereign credit rating of AA- from Fitch or equivalent. The list of countries that qualify using this credit criteria as at the date of this report are shown in **APPENDIX 3**. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

Creditworthiness

5.90 Significant levels of downgrades to Short- and Long-Term credit ratings have not materialised since the crisis in March 2020. In the main, where they did change, any alterations were limited to Outlooks. However, as economies are beginning to reopen, there have been some instances of previous lowering of Outlooks being reversed.

CDS Prices

5.91 Although bank CDS prices, (these are market indicators of credit risk), spiked upwards at the end of March / early April 2020 due to the heightened market uncertainty and ensuing liquidity crisis that affected financial markets, they have returned to more average levels since then. However, sentiment can easily shift, so it will remain important to undertake continual monitoring of all aspects of risk and return in the current circumstances. Link monitor CDS prices as part of their creditworthiness service to local authorities and the Council has access to this information via its Link-provided Passport portal.

Investment Strategy

5.92 Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. While most cash balances are required in order to manage the ups and downs of cash flow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed.

- If it is thought that Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or variable.
- Conversely, if it is thought that Bank Rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

5.93 **Investment returns expectations.** The Bank Rate increased in December 2021.

5.94 The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows.

Average earnings in each year	
2022/23	0.50%
2023/24	0.75%
2024/25	1.00%
2025/26	1.25%
Long term later years	2.00%

5.95 **Investment treasury indicator and limit** - total principal funds invested for greater than 365 days. These limits are set with regard to the Council’s liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

The Council is asked to approve the treasury indicator and limit:-

Maximum principal sums invested > 365 days

	2022/23	2024/25	2025/26
Principal sums invested > 365 days	£10m	£10m	£10m

5.96 For its cash flow generated balances, the Council will seek to utilise its business reserve instant access and notice accounts, money market funds and short-dated deposits (overnight to 100 days) in order to benefit from the compounding of interest.

Investment risk benchmarking

5.97 This Council will use an investment benchmark to assess the investment performance of its investment portfolio of overnight, 7 day, 1, 3, 6 or 12 month compounded / SONIA

End of year investment report

5.98 At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

6	**Implications**

6.1	**Financial**	Included in the report
	Legal	Nil
	Human Resources	Nil
	Human Rights Act	Nil
	Data Protection	Nil

	Risk Management	The Council regards security of the sums it invests to be the key objective of its treasury management activity. Close management of counterparty risk is therefore a key element of day to day management of treasury activity. The practices designed to ensure that risks are managed effectively are set out in the Treasury Management Practices available on the Council's website.

6.2	**Community Impact Assessment Recommendations**	The Borough Council considers the effect of its actions on all sections of our community and has addressed all of the following Equality Strands in the production of this report, as appropriate:-

	Age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex, sexual orientation.

Previous Consideration - Cabinet - 13 January 2022 - Minute No TBC

Background Papers - File available in Financial Services

APPENDIX 1

AUDIT AND ACCOUNTS COMMITTEE

18 JANUARY 2022

Treasury Management Strategy, Minimum Revenue Provision Policy and Annual Investment Strategy 2022/23

Economic Background

MPC meeting 4 November 2021

- The Monetary Policy Committee (MPC) voted 7-2 to leave Bank Rate unchanged at 0.10% with two members voting for an increase to 0.25% and made no changes to its programme of quantitative easing purchases due to finish by the end of this year at a total of £895bn by a vote of 6-3.

- After the Governor and other MPC members had made speeches prior to the MPC meeting in which they stressed concerns over inflation, (the Bank is now forecasting inflation to reach 5% in April when the next round of capped gas prices will go up), thus reinforcing the strong message from the September MPC meeting, financial markets had confidently built in an expectation that Bank Rate would go up from 0.10% to 0.25% at this meeting. However, these were not messages that the MPC would definitely increase Bank Rate at the first upcoming MPC meeting as no MPC member can commit the MPC to make that decision ahead of their discussions at the time. The MPC did comment, however, that Bank Rate would have to go up in the short term. This occurred on 16 December 2021 when the rate was raised to 0.25%

- It will not be until its May meeting, that the MPC will have a clearer understanding of the likely peak of inflation expected around that time. If the statistics show the labour market coping well during the next six months, then it is likely there will be two increases in the three meetings (December, February and May).

- Over the next year the MPC will be doing a delicate balancing act of weighing combating inflation being higher for longer against growth being held back by significant headwinds. Those headwinds are due to supply shortages (pushing prices up and holding back production directly), labour shortages, surging fuel prices and tax increases. However, those headwinds could potentially be offset - at least partially - by consumers spending at least part of the £160bn+ of “excess savings” accumulated during the pandemic. However, it is also possible that more affluent people may be content to hold onto elevated savings and investments and, therefore, not support the economic recovery to the extent that the MPC may forecast.

- The latest forecasts by the Bank showed inflation under-shooting the 3 years ahead 2% target (1.95%), based on market expectations of Bank Rate hitting

1% in 2022. This implies that rates don't need to rise to market expectations of 1.0% by the end of next year.

- It is worth recalling that the MPC pointedly chose to reaffirm its commitment to the 2% inflation target in its statement after the MPC meeting in September yet at its August meeting it had emphasised a willingness to look through inflation overshooting the target for limited periods to ensure that inflation was 'sustainably over 2%'. On balance, once this winter is over and world demand for gas reduces - so that gas prices and electricity prices fall back - and once supply shortages of other goods are addressed, the MPC is forecasting that inflation would return to just under the 2% target.

- **The MPC's forward guidance on its intended monetary policy** on raising Bank Rate versus selling (quantitative easing) holdings of bonds is as follows:

    1. Raising Bank Rate as "the active instrument in most circumstances".
    2. Raising Bank Rate to 0.50% before starting on reducing its holdings.
    3. Once Bank Rate is at 0.50% it would stop reinvesting maturing gilts.
    4. Once Bank Rate had risen to at least 1%, it would start selling its holdings.

- **COVID-19 vaccines.** These have been the game changer which have enormously boosted confidence that **life in the UK could largely return to normal during the summer** after a third wave of the virus threatened to overwhelm hospitals in the spring. With the household saving rate having been exceptionally high since the first lockdown in March 2020, there is plenty of pent-up demand and purchasing power stored up for services in hard hit sectors like restaurants, travel and hotels. The big question is whether mutations of the virus could develop which render current vaccines ineffective, as opposed to how quickly vaccines can be modified to deal with them and enhanced testing programmes be implemented to contain their spread. There is also a potential for the winter flu season combined with Covid to overwhelm NHS hospitals so the UK is not entirely in the clear yet.
- **Since the September MPC meeting**, the economy has been impacted by rising gas and electricity prices which are now threatening to close down some energy intensive sectors of industry - which would then further impact the supply chain to the rest of the economy. Ports are also becoming increasingly clogged up with containers due to a shortage of lorry drivers to take them away. The labour market statistics for August released in mid-October showed a sharp rise in employment but also a continuing steep rise in vacancies. The combination of all these factors is a considerable headwind to a recovery of economic growth in the months ahead.

US. Shortages of goods and intermediate goods like semi-conductors, are fuelling increases in prices and reducing economic growth potential. It now also appears that there has been a sustained drop in the labour force which suggests the pandemic has had a longer-term scarring effect in reducing potential GDP. Economic growth may therefore be reduced to between 2 and 3% in 2022 and 2023 while core inflation is likely to remain elevated at around 3% in both years instead of declining back to the Fed's 2% central target. This could well cause the

Fed to focus on supporting economic growth by delaying interest rate rises, rather than combating elevated inflation i.e., there may be no rate rises until 2023.

See also comments in paragraph 3.3 under PWLB rates and gilt yields.

EU. The slow role out of vaccines initially delayed economic recovery in early 2021 but the vaccination rate then picked up sharply. After a contraction of -0.3% in Q1, Q2 came in with strong growth of 2%. With Q3 at 2.2%, the EU recovery is nearly complete although countries dependent on tourism are lagging. Recent sharp increases in gas and electricity prices have increased overall inflationary pressures but the ECB is likely to see these as being only transitory after an initial burst through to around 4%, so is unlikely to be raising rates for a considerable time.
German general election. With the CDU/CSU and SDP both having won around 24-26% of the vote in the September general election, the composition of Germany's next coalition government may not be agreed by the end of 2021. An SDP-led coalition would probably pursue a slightly less restrictive fiscal policy, but any change of direction from a CDU/CSU led coalition government is likely to be small. However, with Angela Merkel standing down as Chancellor as soon as a coalition is formed, there will be a hole in overall EU leadership which will be difficult to fill.

China. After a concerted effort to get on top of the virus outbreak in Q1 2020, economic recovery was strong in the rest of the year; this enabled China to recover all the initial contraction. During 2020, policy makers both quashed the virus and implemented a programme of monetary and fiscal support that was particularly effective at stimulating short-term growth. At the same time, China's economy benefited from the shift towards online spending by consumers in developed markets. These factors helped to explain its comparative outperformance compared to western economies during 2020 and earlier in 2021. However, the pace of economic growth has now fallen back after this initial surge of recovery from the pandemic and China is now struggling to contain the spread of the Delta variant through sharp local lockdowns - which will also depress economic growth. There are also questions as to how effective Chinese vaccines are proving. Supply shortages, especially of coal for power generation, which is causing widespread power cuts to industry, are also having a sharp disruptive impact on the economy. In addition, recent regulatory actions motivated by a political agenda to channel activities into officially approved directions, are also likely to reduce the dynamism and long-term growth of the Chinese economy.

Japan. 2021 has been a patchy year in combating Covid. However, recent business surveys indicate that the economy is rebounding rapidly now that the bulk of the population is fully vaccinated and new virus cases have plunged. The Bank of Japan is continuing its very loose monetary policy but with little prospect of getting inflation back above 1% towards its target of 2%, any time soon: indeed, inflation was actually negative in July. New Prime Minister Kishida had promised a large fiscal stimulus package after the November general election which his party has now won.

World growth. World growth was in recession in 2020 but recovered during 2021 until starting to lose momentum more recently. Inflation has been rising due to increases in gas and electricity prices, shipping costs and supply shortages, although these should subside during 2022. It is likely that we are heading into a period where there will be a reversal of **world globalisation** and a decoupling of western countries from dependence on China to supply products, and vice versa. This is likely to reduce world growth rates from those in prior decades.

Supply shortages. The pandemic and extreme weather events, followed by a major surge in demand after lockdowns ended, have been highly disruptive of extended worldwide supply chains. At the current time there are major queues of ships unable to unload their goods at ports in New York, California and China. Such issues have led to a misdistribution of shipping containers around the world and have contributed to a huge increase in the cost of shipping. Combined with a shortage of semi-conductors, these issues have had a disruptive impact on production in many countries. The latest additional disruption has been a shortage of coal in China leading to power cuts focused primarily on producers (rather than consumers), i.e., this will further aggravate shortages in meeting demand for goods. Many western countries are also hitting up against a difficulty in filling job vacancies. It is expected that these issues will be gradually sorted out, but they are currently contributing to a spike upwards in inflation and shortages of materials and goods on shelves.

APPENDIX 2

AUDIT AND ACCOUNTS COMMITTEE

18 JANUARY 2022

Treasury Management Strategy, Minimum Revenue Provision Policy and Annual Investment Strategy 2022/23

Treasury Management Practice (TMP1) - Credit and Counterparty Risk Management

SPECIFIED INVESTMENTS: All such investments will be sterling denominated, with **maturities up to maximum of 1 year**, meeting the minimum ‘high’ quality criteria where applicable. (Non-specified investments which would be specified investments apart from originally being for a period longer than 12 months, will be classified as being specified once the remaining period to maturity falls to under twelve months.)

NON-SPECIFIED INVESTMENTS: These are any investments which do not meet the specified investment criteria. A maximum of 50% will be held in aggregate in non-specified investments.

A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made it will fall into one of the above categories.

The criteria, time limits and monetary limits applying to institutions or investment vehicles are:-

	Minimum Credit Criteria / Colour Band	**Max % of total investments/ £ limit per institution**	**Max. Maturity Period**
DMADF – UK Government	Yellow	100%	6 months
UK Government Gilts	UK sovereign rating	£6 million	5 years
UK Government Treasury bills	UK sovereign rating	£6 million	12 months
Bonds issued by multilateral development banks	AAA	£6 million	5 years
Money Market Funds CNAV	AAA	100%	Liquid

	Minimum Credit Criteria / Colour Band	Max % of total investments/ £ limit per institution	Max. Maturity Period
Money Market Funds LNVAV	AAA	100%	Liquid
Money Market Funds VNAV	AAA	100%	Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.25	AAA	100%	Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.5	AAA	100%	Liquid
Local Authorities	N/A	100%	12 months
Call Accounts	N/A	£6 million	Liquid
Term deposits with housing associations	Blue Orange Red Green No Colour	£6 million	12 months 12 months 6 months 100 days Not for use
Term deposits with banks and building societies	Blue Orange Red Green No Colour	£6 million	12 months 12 months 6 months 100 days Not for use
CDs or corporate bonds with banks and building societies	Blue Orange Red Green No Colour	£6 million	12 months 12 months 6 months 100 days Not for use
Gilt Funds	UK sovereign rating	£6 million	12 months

Accounting treatment of investments. The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this Council. To ensure that the Council is protected from any adverse revenue impact, which may arise from these differences, we will review the accounting implications of new transactions before they are undertaken.

APPENDIX 3

AUDIT AND ACCOUNTS COMMITTEE

18 JANUARY 2022

Treasury Management Strategy, Minimum Revenue Provision Policy and Annual Investment Strategy 2022/23

Approved Countries for Investment

This list is based on those countries which have sovereign ratings of AA- or higher, (we show the lowest rating from Fitch, Moody's and S&P) and also, (except - at the time of writing - for Hong Kong, Norway and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the Link credit worthiness service.

Based on lowest available rating

AAA

- Australia
- Denmark
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Canada
- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)
- France

AA-

- Belgium
- Hong Kong
- Qatar
- **U.K.**

APPENDIX 4

AUDIT AND ACCOUNTS COMMITTEE

18 JANUARY 2022

Treasury Management Strategy, Minimum Revenue Provision Policy and Annual Investment Strategy 2022/23

TREASURY MANAGEMENT SCHEME OF DELEGATION

Full Council
- receiving and reviewing reports on treasury management policies, practices and activities;
- approval of annual strategy.

Committees/Council
- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices;
- budget consideration and approval;
- approval of the division of responsibilities;
- receiving and reviewing regular monitoring reports and acting on recommendations;
- approving the selection of external service providers and agreeing terms of appointment.

Body/person(s) with responsibility for scrutiny
- reviewing the treasury management policy and procedures and making recommendations to the responsible body.

APPENDIX 5

AUDIT AND ACCOUNTS COMMITTEE

18 JANUARY 2022

Treasury Management Strategy, Minimum Revenue Provision Policy and Annual Investment Strategy 2022/23

THE TREASURY MANAGEMENT ROLE OF THE SECTION 151 OFFICER

The S151 (responsible) officer

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers;
- preparation of a capital strategy to include capital expenditure, capital financing, and treasury management, with a long term timeframe.

ITEM NO 3(c)

ITEM NO 3(c)

Report of:	**Chief Internal Auditor and Risk Manager**
Contact Officer:	**Stephen Baddeley**
Telephone No:	**01543 464415**
Ward Interest:	**Nil**
Report Track:	**Audit and Accounts 18/01/2022 Cabinet 02/12/2021**

AUDIT AND ACCOUNTS COMMITTEE

18 JANUARY 2022

Strategic Risk Register

The following matter was considered by Cabinet at its meeting held on 2 December 2021 and is submitted to Committee as required.

1 Purpose of Report

1.1 To set out details of the Council's Strategic Risk Register as at 30 September 2021.

2 Recommendation

2.1 That Members note the draft Strategic Risk Register and consider the progress made in the identification and management of the strategic risks.

3 Key Issues and Reasons for Recommendation

3.1 All Strategic Risks and associated action plans have been reviewed and the Council's current risk profile is summarised in the table below:-

Risk Status	**Number of Risks 1 April 2021**	**Number of Risks 30 September 2021**
Red (High)	3	3
Amber (Medium)	6	6
Green (Low)	0	0
TOTAL	**9**	**9**

4 Relationship to Corporate Business Objectives

4.1 This report supports the Council's Corporate Priorities as follows:-

(a) Risk management is a systematic process by which key business risks/opportunities are identified, prioritised and controlled so as to contribute towards the achievement of the Council's aims and objectives.

(b) The strategic risks set out in the Appendices have been categorised against the Council's priorities.

5 Report Detail

5.1 The Accounts and Audit Regulations 2015 state that:-

"A relevant body must ensure that it has a sound system of internal control which:-

(a) facilitates the effective exercise of its functions and the achievement of its aims and objectives;

(b) ensures that the financial and operational management of the authority is effective; and

(c) includes effective arrangements for the management of risk."

5.2 Risk can be defined as uncertainty of outcome (whether positive opportunity or negative threat). Risk is ever present and some amount of risk-taking is inevitable if the council is to achieve its objectives. The aim of risk management is to ensure that the council makes cost-effective use of a risk process that has a series of well-defined steps to support better decision making through good understanding of risks and their likely impact.

Management of Strategic Risks/Opportunities

5.3 The Council's approach to risk management (including its risk appetite) is set out in the Risk Management Policy and Strategy (March 2016).

5.4 Central to the risk management process is the identification, prioritisation and management of strategic risks/opportunities. Strategic Risks are those that could have a significant impact on the Council's ability to deliver its Corporate Business Plan Objectives.

5.5 The risk register has been updated as at 30 September 2021 and a summary is attached as **APPENDIX 1**. The 1 April 2021 review had aligned the risks to the new Corporate Plan priorities and the position at 30 September has also been updated to allocate risks to the revised portfolios. The mid-year review is a chance to update the risk register with progress made in delivering the agreed actions as well as a chance to reflect changes in the risks or risk scores and where necessary add in new actions.

5.6 The risk summary illustrates the risks/opportunities using the “traffic light” method ie:-

RED	risk score 12 and above (action plan required to reduce risk and/or regular monitoring)
AMBER	risk score 5 to 10 (action plan required to reduce risk)
GREEN	risk score below 5 (risk tolerable, no action plan required)

5.7 There has been no changes in the number of risks or the risks scores in this review.

5.8 Although there haven’t been any changes to the risk status actions have been progressing to deal with the risks that have been identified. The changing nature of the pandemic and fluctuating case rates in the Borough means that even though work has been undertaken the full impact and timescales when progress can be made on addressing the risks is difficult to determine at this time.

5.9 The detailed actions plans for each risk are set out in the full strategic risk register attached at **APPENDIX 2**. This includes a progress update. The action plans are closely aligned to the Council’s Recovery plans and will be kept under review.

6	**Implications**

6.1	**Financial**	Nil
	Legal	Nil
	Human Resources	Nil
	Human Rights Act	Nil
	Data Protection	Nil
	Risk Management	As set out in report and Appendices

6.2	**Community Impact Assessment Recommendations**	The Borough Council considers the effect of its actions on all sections of our community and has addressed all of the following Equality Strands in the production of this report, as appropriate:- Age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex, sexual orientation.

Previous Consideration – Cabinet – 2 December 2021 – Min No CAB36/21

Background Papers - File available in Internal Audit and Risk Section

Stafford Borough Council
Summary of the Strategic Risk Register as at 30 September 2021

Risk No.	Risk Description	Risk Impact / Consequences	Risk Date	Gross Risk Score	Residual (Net) Risk Score	Residual (Net) Risk Score	Direction of Travel
RED RISKS					**April 2021**	**Sept 2021**	
C1	The Council's financial stability is adversely affected in the short and medium term	This could result in the Council being unable to achieve the objectives and priorities of the Council, to provide desired levels of service and have an impact on major redevelopment proposals	May 2020	20 RED	20 RED	20 RED	↔
C2	The economy of the Borough is adversely impacted limiting the ability to deliver the Economic Growth Strategy for the Borough	This could potentially lead to business failure or inability to grow; failure to secure investment in infrastructure and major projects; adverse impacts on the rural economy; unemployment; and, adverse impacts on town centres and the wider visitor economy	May 2020	15 RED	15 RED	15 RED	↔
C5	The Council's key contractors remain sustainable and continue to provide value for money	This could result in additional cost to the Council and may limit the delivery of the services	May 2020	20 RED	15 RED	15 RED	↔

Risk No.	Risk Description	Risk Impact / Consequences	Risk Date	Gross Risk Score	Residual (Net) Risk Score	Residual (Net) Risk Score	Direction of Travel
AMBER RISKS							
C3	The failure to manage the changes to town centres as a result of changes arising from the local and national restrictions	Lack of community confidence in accessing retail, leisure and other services within the town centre may reduce spending and add to the decline of the northern town area. This in turn will affect the amount of Business Rates collected.	May 2020	12 RED	9 AMBER	9 AMBER	↔
C4	Failure to work in partnership to sustain support to vulnerable residents post Covid-19	Existing service provision may not meet the need because of the increases in the range of vulnerabilities that people are experiencing.	May 2020	12 RED	9 AMBER	9 AMBER	↔
C6	Reduced Organisational resilience will lead to insufficient resources to support the Council's transformation and recovery agenda in dealing with the implications of Covid-19.	This could result in projects being delayed or not delivered. There is also a risk to employees' health & wellbeing.	May 2020	20 RED	9 AMBER	9 AMBER	↔

Risk No.	Risk Description	Risk Impact / Consequences	Risk Date	Gross Risk Score	Residual (Net) Risk Score	Residual (Net) Risk Score	Direction of Travel
C7	Failure to repel or recover from a Cyber-attack including targeted ransomware, malware and Distributed Denial of Service (DDoS) attacks. The move to home working has increased the vulnerability to malware issues.	This could result in the Council not being able to deliver services	May 2020	20 RED	9 AMBER	9 AMBER	↔
38b	Failure to minimise the impact on the environment from the construction and operation of HS2	This could result in a reduction in the air quality, excessive noise/vibration from the construction activities which may have an impact on people's health and wellbeing	2014	15 RED	10 AMBER	10 AMBER	↔
40b	Failure to deliver Westbridge Park Open Space transformation	This could affect the Council's ability to deliver its Health and Wellbeing agenda, which may impact on people's health.	2016	20 RED	6 AMBER	6 AMBER	↔

GREEN RISKS

There are no current Green Risks

DELETED RISKS

C8 Failure to put in place safe working practices and social distancing measures to protect employees and the public

↓	Risk has decreased	↔	Risk level unchanged	↑	Risk has increased

APPENDIX 2

STAFFORD BOROUGH COUNCIL - STRATEGIC RISK REGISTER AS AT 30th September 2021

Ref No: C1	**Risk: The Council's financial stability is adversely affected in the short and medium term**
Risk Owner: Head of Finance	Cabinet Member: Cllr Smith

Gross Risk Score (i.e. without controls)	Likelihood: 4	Impact: 5	Total Score: **20 - RED**
Residual/Net Risk Score (i.e. with controls in place)	Likelihood: 4	Impact: 5	Total Score **20 - RED**

Actions Planned	**Timescale/Person Responsible**	**Progress/Comments**
Monitor Financial Impact of COVID-19	Head of Finance	Ongoing Monthly monitoring in place
Update Financial Plan in relation to the deferment of 75% Business Rates Retention and Fair Funding by a year	Head of Finance	Scenarios developed reflecting potential treatment of growth and levy Details awaited of new timescale for implementation.
Refresh Medium Term Financial Plan based upon alternative scenarios of short /medium and long term impact of in relation to external funding sources	Head of Finance	Ongoing New Financial Plan to be completed in 2021/22
Lobby Department for Levelling Up, Housing and Communities (DLUHC) via MP/DCN and LGA.	Chief Executive/Head of Finance	Ongoing contact with M.P.s, DCN, West Midland Chief Executives, LGA and directly with ministers. There is an on-going role to lobby the Government through the LGA on financial matters to protect the delivery of local services, engage in the local government re-organisation and future funding streams as well as

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STAFFORD BOROUGH COUNCIL - STRATEGIC RISK REGISTER AS AT 30th September 2021

Actions Planned	Timescale/Person Responsible	Progress/Comments
		consultations such as the New Homes Bonus etc
Determine feasibility of extending Business Rates Pool into 2021/22 Monitor impact of COVID 2019 on pool by authority on a month-by-month basis Liaise with S and Sot Business Rate Pool Members re options to maintain viable pool for 2021/2022 Prepare options report to Leaders and Chief executives	Head of Finance Completed	Pool established for 2021/22
Determine impact of Government proposals for key funding regime changes for 2022/23	Head of Finance	Ongoing
Implement a rolling programme of service reviews to ensure that resources are aligned to business objectives and are operating as efficiently as they can be	Chief Executive/Head of Finance	To form part of 2022-23 Budget Process

Overall Progress Summary:

Monitoring of the Financial impact of Covid -19 is ongoing. The estimated impact of the pandemic has been reflected in the Medium-Term Budget as approved by Council with a balanced budget in place for 2021-22.

The medium-term financial stability of the Council is however dependent upon changes arising from the future funding regime for local government. Details in relation to the implementation of 75% Business Rates Retention and Fair Funding and Business Rates Reset and New Homes are still awaited.

A consultation document in relation to the Future of New Homes Bonus, beginning in 2022/23, was published on the 21 February 2021 (a response from the Council was submitted in advance of the closing date of 7 April 2021).

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STAFFORD BOROUGH COUNCIL - STRATEGIC RISK REGISTER AS AT 30th September 2021

The Council is still awaiting details of the financial Settlement for 2022-23 to be provided by Central Government.

Ref No: C1 **Risk: The Council's financial stability is adversely affected in the short and medium term**
Consequences of Risk: • Unable to provide desired levels of service • Major redevelopment proposals are impacted • Council size becomes too small to sustain a viable organisation
Links to Corporate Business Plan – Objective 4 • To be a well-run, financially sustainable, and ambitious organisation, responsive to the needs of our customers and communities and focussed on delivering our objectives
Key Controls in Place: • Medium term financial plan in place • Annual Financial Plan and Medium-Term Financial Strategy to 2023/24 in place • The Revenue Budget for 2021/22 is balanced with a potential deficit of £1,003,000 for 2022/23 if a new regime is implemented • Working Balances maintained • Comprehensive Service Review being undertaken to re-align resources to Corporate Plan • Corporate Budget Monitoring • Evaluation of consultations on changes to government funding regimes

STAFFORD BOROUGH COUNCIL - STRATEGIC RISK REGISTER AS AT 30th September 2021

Ref No:C2	**Risk: The economy of the Borough is adversely impacted limiting the ability to deliver the Economic Growth Strategy for the Borough**
Risk Owner: Head of Development	Cabinet Member: Cllr Beatty

Gross Risk Score (i.e. without controls)	Likelihood: 3	Impact: 5	Total Score: 15 - Red
Residual/Net Risk Score (i.e. with controls in place)	Likelihood: 3	Impact: 5	Total Score: 15 - Red

Actions Planned	**Timescale/Person Responsible**	**Progress/Comments**
Deliver the opportunities for growth through the new Local Plan process	2021-22 Strategic Planning and Placemaking Manager	The first stage of the new Local Plan was consulted upon in February and March 2020. Critical elements of the evidence base are currently delayed due to the implications of recent Government policy changes and the economic uncertainty arising from the Covid pandemic. Therefore the ongoing timetable for progression to adoption is under review.
Continue with major projects as programmed, review detail to see if need to change in context of Covid 19	In accordance with individual project plans Economic Growth and Strategic Projects Manager	Scheduled works under review to identify potential delays. Emerging issues with supply chain for construction – being kept under review and considered within procurements. Internal and external stakeholders engaged early to minimise delays as programmes progress.

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STAFFORD BOROUGH COUNCIL - STRATEGIC RISK REGISTER AS AT 30th September 2021

Actions Planned	Timescale/Person Responsible	Progress/Comments
Future High Street Fund programme to be delivered	2021-2024 Economic Growth and Strategic Projects Manager	Programme governance in place and inception meetings took place April 2021. Ongoing programme monitoring
Implementation of a discretionary financial support grant scheme (funded by Government) to mitigate the impacts of Covid 19	Until March 2022 Economic Growth and Strategic Projects Manager	The Additional Restrictions Grant Policy is available online and a programme of business support has been agreed with Cabinet April 2021that runs until March 2022.

Overall Progress Summary:

Immediate and longer terms interventions identified and being implemented; minor disruption to major projects and Future High Streets Fund bid updated to reflect impact of Covid-19. Local Plan progression under regular review.

Ref No: C2	**Risk: The economy of the Borough is adversely impacted limiting our ability to deliver the Economic Growth Strategy for the Borough**
Consequences Of Risk:	• The Council's ability to deliver the objectives as set out in the Economic Growth Strategy is adversely impacted potentially leading to business failure or inability to grow; failure to secure investment in infrastructure and major projects; adverse impacts on the rural economy; unemployment; and, adverse impacts on town centres and the wider visitor economy; • Adverse impact on growth in revenue from Business Rates and Council Tax • Failure to maximise the economic benefits associated with HS2 related development • Increase in demand on Housing and Revenues services
Links to Corporate Business Plan – Objective:	• 1, 2, 3

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STAFFORD BOROUGH COUNCIL - STRATEGIC RISK REGISTER AS AT 30th September 2021

Ref No: C2	**Risk: The economy of the Borough is adversely impacted limiting our ability to deliver the Economic Growth Strategy for the Borough**
Key Controls in Place:	• Project plans and governance arrangements for the Garden Community, Stafford Town Centre Transformation and Stafford Station Gateway projects • SGRIP group well established and key stakeholders are represented in the Economic Recovery work stream • Visitor Economy recovery work part of the overarching Recovery Strategy • The Economic Growth and Strategic Projects Team has a dedicated Senior Investment Manager working directly with the private sector and dedicated Project Managers to implement the major schemes • The Stafford Town Centre Strategic Framework responds to the outcome of the Future High Streets Fund bid to ensure the maximum amount of development remains viable • Market appraisals for emerging development schemes have been refreshed since March 2020 • Homes England are fully appraised of emerging development schemes that will require additional Government funding to attract private investment and tackle viability issues • The new Local Plan remains ambitious and will act as a portfolio for development; key evidence base studies are being updated to reflect recent economic changes

STAFFORD BOROUGH COUNCIL - STRATEGIC RISK REGISTER AS AT 30th September 2021

Ref No:C3	**Risk: The failure to manage the changes to town centres as a result of changes arising from the local and national restrictions**
Risk Owner: Head of Development	Cabinet Member: Cllr Beatty

Gross Risk Score (i.e. without controls)	Likelihood: 4	Impact: 3	Total Score: **12 – Red**
Residual/Net Risk Score (i.e. with controls in place)	Likelihood: 3	Impact: 3	Total Score: **9 - Amber**

Actions Planned	**Timescale/Person Responsible**	**Progress/Comments**
Supporting town centre groups in Stafford, Stone and Eccleshall to operate our high streets in a Covid Secure way	Ongoing Economic Growth and Strategic Projects Manager	1 ERDF funded Business Support Officer in post; 5 bespoke marketing campaigns launched from November 2020. In April 2021 Cabinet agreed to extend the additional post to continue to support our local businesses for a further 12 months

Overall Progress Summary: **Economic Recovery via the Growth Strategy Implementation Plan underway; ongoing liaison with Stafford Town Centre Partnership, Stone Traders Group and Destination Eccleshall.**

STAFFORD BOROUGH COUNCIL - STRATEGIC RISK REGISTER AS AT 30th September 2021

Ref No: C3 **Risk: The failure to manage the changes to town centres as a result of changes arising from the local and national restrictions**
Consequences Of Risk: • Lack of community confidence in accessing retail, leisure and other services within town centres will reduce spending and add to the decline of the northern town area of Stafford. • This in turn will affect the amount of Business Rates collected.
Links to Corporate Business Plan – Objective : • 1, 2, 3
Key Controls in Place: • Working with stakeholder groups in key town centres of Stafford, Stone and Eccleshall to support safe-opening of businesses and ensure that the wider community is aware of the measures in place to manage health and safety concerns • Additional Restrictions Grant programme in operation until March 2022 and communicated regularly to eligible businesses • Future High Streets Fund programme underway • Economically important planning applications are prioritised

STAFFORD BOROUGH COUNCIL - STRATEGIC RISK REGISTER AS AT 30th September 2021

Ref No: C4	**Risk: Failure to work in partnership to sustain support to vulnerable residents post Covid-19**
Risk Owner: Head of Development/ Corporate Business and Partnerships Manager	Cabinet Member: Jeremy Pert

Gross Risk Score (i.e. without controls)	Likelihood: 4	Impact: 3	Total Score: **12 - RED**
Residual/Net Risk Score (i.e. with controls in place)	Likelihood: 3	Impact: 3	Total Score: **9 - AMBER**

Actions Planned	**Timescale/Person Responsible**	**Progress/Comments**
Economic Recovery group meets monthly	Ongoing Economic Growth and Strategic Projects Manager	The group interrogates local and national data to identify priority areas for intervention, including the prioritisation of funding applications.
Extend commissioned services that provide lower level support to individuals experiencing drugs and alcohol use and mental health; outreach support for anti-social behaviour; and sanctuary provision for domestic abuse	June 2021 Corporate Business and Partnerships Manager	Completed Contracts recommissioned

STAFFORD BOROUGH COUNCIL - STRATEGIC RISK REGISTER AS AT 30th September 2021

Actions Planned	Timescale/Person Responsible	Progress/Comments
DFG commissioned service to be closely monitored and managed to accelerate delivery in light of delays partly caused by lockdowns	May 2020 onwards Health and Housing Manager	Millbrook operational staff now back to full complement after period with vacancies/absences. Contractor rates uplifted to account for increased costs of labour and materials; this secured contractor availability and assisted with liquidity in supply chain, including access to materials from alternative suppliers. A full review of rates is planned for the end of the financial year.
Housing Options prepared for increase in demand as evictions restart and support measures to mitigate impact of the pandemic are withdrawn (for example furlough).	September 2020 onwards Health and Housing Manager	Early options support for households who have been identified as being in rent arrears prior to action being taken. Enhanced training of options officers with partner agencies to ensure they are prepared to deal with the changing caseload (for example repossessions). Additional support for Citizens Advice around housing debt and representation at possession proceedings.

STAFFORD BOROUGH COUNCIL - STRATEGIC RISK REGISTER AS AT 30th September 2021

Actions Planned	Timescale/Person Responsible	Progress/Comments
Warmer Homes Stafford (WHS) commissioned service to be prepared for increased demand as economic impact of the pandemic, combined with spiralling costs in the energy market for home heating and as temperatures decline with the onset of winter create additional challenges for vulnerable residents living in cold homes.	Ongoing Health and Housing Manager	WHS delivery partner and fuel poverty charity Beat the Cold are commissioned until 31 March 2022. They have increased their staff numbers to manage the significant upturn in enquiries made to the service and have been central to the distribution of fuel and food vouchers via COVID-19 Winter Heating Support. Funding is required for continuation of the service from April 2022.

Overall Progress Summary:

Good progress is being made in relation to the community recovery work.

- A comprehensive evaluation of activities has been conducted which has informed response activities during the lockdown. Meetings are taking place with partner organisations including parish councils and community groups – who continue to support vulnerable residents in the borough.
- The council assumed the role of anchor organisation for the borough and are signposted vulnerable residents to local provision, this support will continued until the end of March 2022. Council webpages have been updated and now encompass a broad range of signposting information for residents under the ‘Talk to Us’ pages and also information for community groups and parish councils.
- Webinars have been specifically designed for community groups, parish councillors and elected members based on their feedback received during the evaluation of the Community HUB; these remain available on line to watch again.

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- There is an open invitation to parish councils to ask for support from SBC when they are developing their resources. The Stepping Stones programme supports people in regaining their confidence to exercise at home, increase strength and mobility and independently leave the house to go on a short walk, with encouragement to share and engage with others online and in person. Involvement with parish councils with setting up walks in their local area and published walk guides are being prepared.

Ref No: C4

Risk: Failure to work in partnership to sustain support to vulnerable residents post Covid-19

Consequences Of Risk:

- Potential of core support services being withdrawn, for example, substance misuse services, domestic abuse, mental health, impacting on a person's health and wellbeing and potentially on their housing situation.
- Vulnerable people at risk of not receiving help and support therefore increasing issues such as poverty, poor housing conditions, homelessness, rough sleeping, family breakdown, loneliness and isolation, suicide, safeguarding issues relating to child abuse, domestic abuse, exploitation, mental health, drugs and alcohol, self-medicating, anti-social behaviour
- Relationships with partners at risk because of failure to deliver services because of financial and resource difficulties therefore affecting community confidence and resilience
- Socio- economic impact in terms of job losses, closure of premises and the level of funding available for community groups may impact on reductions in service provision, increases in support needs, tenancies not being sustained, increases in hazards for health

Links to Corporate Business Plan – Objective : 1 and 2

- To deliver sustainable economic and housing growth to provide income and jobs
- To improve the quality of life of local people by providing a safe, clean, attractive place to live and work and encouraging people to be engaged in developing strong communities that promote health and wellbeing.

STAFFORD BOROUGH COUNCIL - STRATEGIC RISK REGISTER AS AT 30th September 2021

Ref No: C4 **Risk: Failure to work in partnership to sustain support to vulnerable residents post Covid-19**
Key Controls in Place: • Community Wellbeing Partnership in place that can escalate any issues to Local Strategic Partnership • Commissioned services in place to support with mental health and substance misuse, antisocial behaviour and domestic abuse. • Representation at County, Regional and National level multi-agency partnership meetings in respect of Voluntary Sector, Parish Councils, Community Safety, Economic Growth, Housing, DFG's, Rough Sleeping and Homelessness, Anti-social Behaviour, Earned Autonomy, Food Bank Forum, Domestic Abuse; • Needs assessments in place for health, community safety, homelessness that identify areas of concern in the Borough to enable the targeting of resources • Multi-agency place based model of support in place in Doxey, Rising Brook and Highfields • Parish Council Forum in place • Continued financial support for businesses in place until March 2022 and ongoing involvement in County-wide redundancy task force • VCSE organisations such as Rising Brook Baptist Church and Stone Community HUB supporting residents with food parcels and prescriptions. • Food schemes and food banks in place, foodbank forum meets on a regular basis • Community Recovery Group now set up and in place, project plan produced and being monitored • Additional support for DFG delivery being put in place. • Proactive work to identify those at risk of eviction, when ban is fully lifted. • Additional units of refuge accommodation operational • Multi-agency strategies in place for Community Safety and Wellbeing, Economic Growth

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APPENDIX 2

STAFFORD BOROUGH COUNCIL - STRATEGIC RISK REGISTER AS AT 30th September 2021

Ref No: C5	**Risk: The Council's key contractors remain sustainable and continue to provide value for money**
Risk Owner: Head of Operations	Cabinet Member: Cllr Smith

Gross Risk Score (i.e. without controls)	Likelihood: 4	Impact: 5	Total Score: **20 - RED**
Residual/Net Risk Score (i.e. with controls in place)	Likelihood: 3	Impact: 5	Total Score: **15 - RED**

Actions Planned	**Timescale/Person Responsible**	**Progress/Comments**
All contracts being monitored by appropriate Head of Service/Service Manager.	Monthly/Quarterly Contract meetings take place between Council officers and representatives of major contractors Heads of Service Service Managers Contracts and Procurement Manager	Regular virtual meetings with contractors. Contracts exhibiting greatest risk are additionally being monitored by the Council's Contract and Procurement Manager
Assistance with financial management being offered by the Council to individual contractors	On-going open book process with Freedom Leisure Chief Executive Head of Finance Head of Operation Chief Accountant	Management payments being made in advance to assist with cash flow. Additional payments may be made subject to an "Open book" process to assist cashflow.

STAFFORD BOROUGH COUNCIL - STRATEGIC RISK REGISTER AS AT 30th September 2021

Actions Planned	**Timescale/Person Responsible**	**Progress/Comments**
Information sharing with other Councils and Local Government Association	Responses given when requested to Government Departments and network partners Heads of Service Contracts and Procurement Manager	Contact with other Councils that have contracts with SBC contractors
Lobbying of Department for Levelling Up, Housing and Communities (DLUHC)via Members of Parliament, District Council Network and Local Government Association re financial impact of COVID 19 on SBC	As opportunities arise Chief Executive Head of Finance	Information provided regarding the financial impact of Covid 19 on contracted services
Ensuring timely applications are submitted for any available Government Grant funding	As bid windows are opened Heads of Service Head of Finance Service Managers Contracts and Procurement Manager Chief Accountant	A successful application was made by our Leisure and Culture Contractor for an Arts Council grant of £250,000 for the Gatehouse Theatre to cover some of the losses incurred and to make building adaptations to ensure Covid-19 compliance. The Council has been successful in its application for a maximum amount of £260,000 from the National Leisure Relief Fund to cover losses that Freedom Leisure have incurred over Stafford Leisure Centre, Stone Leisure Centre and Rowley Park. Additionally, the Council has also been awarded a “top up” sum of £17,851.

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STAFFORD BOROUGH COUNCIL - STRATEGIC RISK REGISTER AS AT 30th September 2021

Actions Planned	Timescale/Person Responsible	Progress/Comments
		Freedom Leisure have recently be awarded additional funding for the Stafford Gatehouse Theatre of £124,950 from the second round of the Government's Culture Recovery Fund. The second round of awards made today will help organisations to look ahead to the spring and summer and plan for reopening and recovery. After months of closures and cancellations to contain the virus and save lives, this funding will be a much needed helping hand for organisations transitioning back to normal in the months ahead The Cabinet on 4 March 2021 considered a confidential report on Financial Support to Freedom Leisure which was scrutinised by a special Resources Scrutiny Committee on the 25 March 2021. Financial support given to Freedom Leisure to assist cashflow in line with Cabinet decision.

STAFFORD BOROUGH COUNCIL - STRATEGIC RISK REGISTER AS AT 30th September 2021

Actions Planned	Timescale/Person Responsible	Progress/Comments
Evaluation of Government guidance on Covid 19 on service that can be delivered	Responses actioned to Guidance as issued Heads of Service Service Managers Contracts and Procurement Manager	Services have been reintroduced as Government restrictions have been lifted. Recovery plans continue to be evaluated, revisited and further developed by Contractors in consultation with the Council as services delivered.

Overall Progress Summary:

- Risk is not at the same level with all contractors.
- We are concentrating on the monitoring and financial support to the Leisure contractor which currently carries the highest risk.
- Services being re-introduced following the lifting of Government restrictions/return of work force.
- Prioritisation of service reintroduction on “open book” process.

Management of this risk is largely outside the control of the Council as it is a national issue and depends on the Government’s plans for easing lockdown and support to businesses. However, the Council is working with its contractors to support them during lockdown and in implementing their recovery plans in accordance with Cabinet Office Action Note PPN04/20 Procurement Policy Note - Recovery and transition from COVID -19.

STAFFORD BOROUGH COUNCIL - STRATEGIC RISK REGISTER AS AT 30th September 2021

Ref No: C5 **Risk: The Council's key contractors remain sustainable and continue to provide value for money**
Consequences of Risk: • Varying degree of risk dependant on contract • Potential for an individual contract failure resulting in a defined Council service not being delivered • Financial loss • Reputational damage locally and nationally
Links to Corporate Business Plan – Objective 4: To be a well-run, financially sustainable and ambitious organisation, responsive to the needs of our customers and communities and focussed on delivering our objectives
Key Controls in Place: • Regular contact with key personnel associated with each contractor • Regular discussion at Leadership Team and Cabinet level • "Open book" financial monitoring introduced on selected contracts • Corporate Budget Monitoring • Contract monitoring • Sharing of information with other authorities who have same contractors

APPENDIX 2

STAFFORD BOROUGH COUNCIL - STRATEGIC RISK REGISTER AS AT 30th September 2021

Ref No: C6	**Risk: Reduced Organisational resilience will lead to insufficient resources to support the Council's transformation and recovery agenda in dealing with the implications of Covid-19**
Risk Owner: Chief Executive	Cabinet Member: Cllr Smith

Gross Risk Score (i.e. without controls)	Likelihood: 3	Impact: 5	Total Score: **15- RED**
Residual/Net Risk Score (i.e. with controls in place)	Likelihood: 3	Impact: 3	Total Score **9- Amber**

Actions Planned	**Timescale/Person Responsible**	**Progress/Comments**
Implement the revised Corporate Business Plan	Corporate Business and Partnerships Manager	Completed Delivery Plans and performance framework have been implemented
Monitor the performance and delivery of the Corporate Business Plan	Corporate Business and Partnerships Manager From April 2021 – March 2022	Delivery Plans are being monitored by Leadership Team, Cabinet and the three Scrutiny Committees.
Continue to monitor the impact of Covid through the Recovery Programme	Corporate Business and Partnerships Manager Ongoing	Capacity to deliver continues to be highlighted as an issue across the 4 workstreams and this continues to be monitored closely by Leadership Team and Cabinet. Progress on the council's recovery programme is reported to Resources Scrutiny Committee.
Monitoring – Continued monitoring of impact of health and wellbeing of staff both in general and directly linked to COVID-19.	Group HR and Payroll Manager – on-going	On-going absence and well-being reporting via Managers/HR Services
Formulate organisational framework that sets out the future vision and ways of working.	Corporate Business and Partnerships Manager From March 2021 onwards	Covid Future Planning has been formulated which sets out and details the Organisation Visioning Framework. This is accompanied by an organisational SWOT and PESTLE analysis.

As at Sept 21

STAFFORD BOROUGH COUNCIL - STRATEGIC RISK REGISTER AS AT 30th September 2021

Actions Planned	**Timescale/Person Responsible**	**Progress/Comments**
Ensure the effective and timely preparation of Risk Assessments, procedures and guidance to enable safe work practices to be implemented in line with HSE and Government Guidelines	Service Managers and H&S Adviser – Completed	Risk Assessments completed and published in line with Government Guidance and local decision making
Consult with employees and Trade Unions to provide “buy-in” to a joined-up approach to future ways of working	Chief Executive Head of HR and PS	On-going as required

Overall Progress Summary:

During each phase of COVID-19 lockdown capacity to support Council priority areas and community support and the overall response to COVID-19 was achieved by redeploying internal resources as required and the professionalism, goodwill and dedication of staff. The majority of the Council’s workforce continue to work remotely in order to continue to provide effective services. Following consultation and updated risk assessments as appropriate some additional staff have returned to offices on a rota basis to ensure delivery of services. All workplaces are subject to COVID-19 risk assessments to ensure the health, safety and well-being of officers who cannot or are unable to work from home. Work going forward led by the Organisational Recovery Group is focusing on recovery and how the Council will operate in the future, at the same time as keeping a watching brief in relation to the on-going impact of COVID taking account of local and national priorities.

Ref No: C6
Risk: Reduced Organisational resilience will lead to insufficient resources to support the Council’s transformation and recovery agenda in dealing with the implications of Covid-19.”

Consequences Of Risk:
This could result in the following:-
- Service delivery/Projects impacted by delays, reduced quality of delivery or projects not delivered
- Increased costs due to delays and project inertia

• Customer expectation not met and satisfaction levels with service delivery reduced • Increased risk to employees' health, safety and wellbeing due to changes in circumstances • Failure to meet health and safety standards could lead to prosecution. • Unable to restore some services effectively • Risk of illness to staff and visitors
Links to Corporate Business Plan – Objective 4: • To be a well-run, financially sustainable and ambitious organisation, responsive to the needs of our customers and communities and focussed on delivering our objectives
Key Controls in Place: • Sickness Absence and Welfare Monitoring by Managers in line with Council Policies • Co-ordinated support and guidance to managers and employees by Human Resources • Use of Occupational Health, external Counselling support services and on-line employee assistance programme • Regular discussion at Leadership Team meetings. • Health and Safety controls (including risk assessment) in place in line with Government Guidance and best practice • Organisational Recovery Group – High Level Action/Implementation Plan in place and under regular review • Government Guidance as and when published • Health and Safety Advice provided through H&S shared service arrangements – inbuilt resilience

APPENDIX 2

STAFFORD BOROUGH COUNCIL - STRATEGIC RISK REGISTER AS AT 30th September 2021

Ref No: C7	**Risk: Failure to repel or recover from cyber-attack including targeted ransomware, malware and DDoS attacks**
Risk Owner: Head of Technology	Cabinet Member: Cllr Smith

Gross Risk Score (i.e. without controls)	Likelihood: 4	Impact: 5	Total Score: **20 - RED**
Residual/Net Risk Score (i.e. with controls in place)	Likelihood: 3	Impact: 3	Total Score **9 - AMBER**

Actions Planned	**Timescale/Person Responsible**	**Progress/Comments**
Information Risk Management- Continuous review and work on our information risk management regime	Ongoing/ Head of Technology	Policies under review.
Monitoring – External and Internal checks. Threat and vulnerability assessment and remediation including Annual IT Health Check by CLAS approved consultant with remedial work carried out	Ongoing/ Head of Technology	Annual Health check completed in August 2020. Follow-up check is planned for November 2021.
Application Security Assessment and Remediation action taken	Annually Head of Technology	The health check will produce an action plan to feed into this.
Limit the access to critical systems and data by non-corporate devices.	September 2021 Head of Technology	During 2020 & 2021 we have been able to increase the number of corporate laptops that access the internal systems.
Exploring options to improve security for sharing information with external partners	Ongoing Head of Technology	Further use of Teams to provide secure access to data for our partners.
The move to home working has increased the vulnerability to malware issues. The use of cloud technology has reduced the likelihood due to the data being segregated across systems and devices.	On-going Head of Technology	Email mailboxes are now held in the cloud. Data files will also be moved during 2021/22
Require one-time passwords for all email connections.	Systems Manager	Partially complete

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STAFFORD BOROUGH COUNCIL - STRATEGIC RISK REGISTER AS AT 30th September 2021

Overall Progress Summary:
Work has been completed and actions are in progress. However, the environment means that new risks and challenges are always developing and attacks are becoming more sophisticated.

Ref No: C7
Risk: Failure to repel or recover from cyber-attack including targeted ransomware, malware and DDoS attacks

Consequences Of Risk:
- Data, Systems and Applications inaccessible
- Inability to deliver Council services
- Cybercrime/ Fraud/ Ransom demands/ Financial harm
- Reputational damage locally and nationally
- Data Loss and breach of Data Protection Act (DPA)
- Financial Loss

Links to Corporate Business Plan – Objective 4:To be a well-run, financially sustainable and ambitious organisation, responsive to the needs of our customers and communities and focussed on delivering our objectives

Key Controls in Place:
- Information Risk Management Regime – Assess the risks to our information assets, effective governance structure, Leadership Team engagement with cyber risk, produce supporting information management policies.
- Secure configuration – Corporate policies and processes to develop secure baseline builds
- Network Security – Protection and secured perimeter of external security threats and untrusted networks
- Managing user privileges – All users of ICT systems provided with privileges suitable for their role
- User education and awareness – Security policies that describe acceptable and secure use of ICT assets
- Incident management – Incident response and disaster recovery capabilities that address the full range of incidents that can occur
- Malware prevention – Produce policies that directly address the business processes (such as email, web browsing, removable media and personally owned devices)

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STAFFORD BOROUGH COUNCIL - STRATEGIC RISK REGISTER AS AT 30th September 2021

Ref No: C7 **Risk: Failure to repel or recover from cyber-attack including targeted ransomware, malware and DDoS attacks**
• Monitoring – Established monitoring taking into account previous security incidents and attacks. Annual IT Health Check and penetration testing conducted by a Council of Registered Ethical Security Tester (CREST)/Communications-Electronics Security Group (CESEG) Listed Advisor Scheme (CLAS) - accredited Government Communication Headquarters (GCHQ) approved consultants. • Removable media controls – Produce removable media policies that control the use of removable media for the import and export of information • Home and mobile working – Assess the risks to all types of mobile working including remote working and develop appropriate security policies

STAFFORD BOROUGH COUNCIL - STRATEGIC RISK REGISTER AS AT 30th September 2021

Ref No: 38b	**Risk: Failure to minimise the impact on the environment from the construction and operation of HS2**
Risk Owner: Head of Operations	Cabinet Member: Environment

Gross Risk Score (i.e. without controls)	Likelihood: 3	Impact: 5	Total Score: **15 - RED**
Residual/Net Risk Score (i.e. with controls in place)	Likelihood: 2	Impact: 5	Total Score **10 - AMBER**

Actions Planned	**Timescale/Person Responsible**	**Progress/Comments**
Continued participation in HS2a Environmental Health Sub-Group covering Noise, Air Quality and land contamination implications	Attendance at Quarterly meetings Regulatory Services Manager	Have attended and participated in all scheduled meetings
As we receive Section 61 Notices the Council has provided a response and approval	Section 61 notices are received on an on-going basis Regulatory Services Manager	New control

STAFFORD BOROUGH COUNCIL - STRATEGIC RISK REGISTER AS AT 30th September 2021

Overall Progress Summary:

Information obtained by officer's participation in HS2 working groups to address noise, environmental, air quality and planning elements of the route alignment, during construction and subsequent operation, has assisted them in providing an input into the Council's petitioning document. Continued liaison between the Council's Development Manager and Regulatory Services Manager has enabled better shared understanding of the issues/risks; and the use of appropriate mechanisms to try and address the areas of concern.

The hybrid bill has received Royal Assent

Officers are now working closely with HS2 on the mechanism associated with section 61 notices under the Control of Pollution Act 1974 which require contractors to state mitigation measures for adverse effects of the construction phase.

Section 61 notices have been received by Officers and reviewed, negotiated and subsequently approved.

Ref No: 38b

Risk: Failure to minimise the impact on the environment from the construction and operation of HS2

Consequences of Risk:

- A reduction in the air quality from the construction activities. This could arise directly from the construction sites and indirectly from changes in the volume, composition, and location of traffic on the highway network.
- Excessive levels of Noise and vibration from construction and operation activities could lead to a significant effect on the residential amenity to domestic premises close to the proposed line.
- The negative effects associated with the off-site disposal to landfill of solid waste that will be generated by the construction and operation of the proposed scheme.
- The adverse effect of contaminant mobilisation.

Links to Corporate Business Plan – Objective 2:

- To improve the quality of life of local people by providing a safe, clean, attractive place to live and work and encouraging people to be engaged in developing strong communities that promote health and wellbeing

Key Controls in Place: • Lead officer nominated • Close working relationship with Staffordshire County Council and other District Council's in Staffordshire on the route • Partnership in forums and working groups to maintain influence with major construction leads

STAFFORD BOROUGH COUNCIL - STRATEGIC RISK REGISTER AS AT 30th September 2021

Ref No: 40b	**Risk: Failure to deliver Westbridge Park Open Space transformation**
Risk Owner: Head of Development	Cabinet Member: Leisure

Gross Risk Score (ie without controls)	Likelihood: 4	Impact: 3	Total Score: **12 - RED**
Residual/Net Risk Score (ie with controls in place)	Likelihood: 2	Impact: 3	Total Score: **6 - AMBER**

Actions Planned	**Timescale/Person Responsible**	**Progress/Comments**
Following development of the Masterplan for Westbridge Park detailed designs and a funding strategy to be developed for phase 2 of the Stone Leisure Strategy.	Q4 2020-21 to Q2 2021-22 Head of Development/Leisure Projects Manager	Progressing
Sale of Tilling Drive complete. Capital receipt to be invested in leisure provision in Stone.	Q3 2020-21 Head of Development	Planning Application for Tilling Drive approved and development under construction. Compensatory playing field provision being progressed.
Alleynes School have bid for funds from DoE to re-purpose swimming pool building, using SBC monies to decommission the pool as match funding.	Q3 / Head of Development	Awaiting the outcome of the bid.

Overall Progress Summary:

Sale of Tilling Drive completed. Planning permission granted for Tilling Drive and development under construction. Works on compensatory sporting provision are complete and balance of sale receipt now received and forms part of Stone Leisure budget..

As at Sept 21

STAFFORD BOROUGH COUNCIL - STRATEGIC RISK REGISTER AS AT 30th September 2021

Ref No: 40b **Risk: Failure to deliver Westbridge Park Open Space transformation.**
Consequences Of Risk: • Reputational damage • Impact on delivery of Health and Wellbeing agenda. • Unable to deliver corporate plan objectives
Links to Corporate Business Plan – Objective 2: • To improve the quality of life of local people by providing a safe, clean, attractive place to live and work and encouraging people to be engaged in developing strong communities that promote health and wellbeing.
Key Controls in Place: • Programme Board in operation which manages financial and legal controls • Project Plan – currently being reviewed. • Professional experts brought in as required (Consultants) • A detailed consultation exercise has been completed on the future play and leisure needs for Stone and a Masterplan for Westbridge Park developed. Cabinet approved the revised Stone Leisure Strategy in October 2021 with work on the detailed designs now to commence.